

**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, 2015 .

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
(State of incorporation)

04-2441294
(I.R.S. Employer Identification No.)

175 Cabot Street, Lowell, Massachusetts 01852 (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, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$23,325,566 based on the closing sale price of \$6.78 as reported on the Nasdaq Global Market.

As of December 2, 2015, we had outstanding 3,687,894 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 2016 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, 2015 .

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Note: Items 1B, 6 and 7A are not required for Smaller Reporting Companies and therefore are not furnished.

Special Note Regarding Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. This information may involve known and unknown risks, uncertainties and other factors that are difficult to predict and may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. The discussion below contains certain forward-looking statements related but not limited to, among others, statements concerning future revenues and future business plans. Forward-looking statements include statements in which we use words such as "expect," "believe," "anticipate," "intend," "project," "estimate" "should" "could," "may," "plan," "potential," "predict," "project," "will," "would" and similar expressions. Although we believe the expectations reflected in such forward-looking statements are based on reasonable assumptions, the forward-looking statements are subject to significant risks and uncertainties, and thus we cannot assure you that these expectations will prove to have been correct, and actual results may vary from those contained in such forward-looking statements. We discuss many of these risks and uncertainties in Item 1A under the heading "Risk Factors" in this Annual Report.

Factors that may cause such variances include, but are not limited to, our dependence on a small number of customers for a significant portion of our revenue, our high dependence on contracts with the U.S. federal government, our reliance in certain circumstances on single sources for supply of key product components, and intense competition in the market segments in which we operate. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this document. We have based the forward-looking statements included in this annual report on Form 10-K on information available to us on the date of this annual report, and we assume no obligation to update any such forward-looking statements, other than as required by law. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we, in the future, may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

All forward-looking statements included herein are expressly qualified in their entirety by the cautionary statements contained or referred to elsewhere in this annual report. Unless otherwise indicated, the information in this annual report is as of September 30, 2015.

PART I

Item 1. **Business**

CSP Inc. ("CSPI" or "the Company" or "we" or "our") was incorporated in 1968 and is based in Lowell, Massachusetts. To meet the diverse requirements of our commercial, and defense customers worldwide, CSPI and its subsidiaries develop and market IT integration solutions, advanced security and managed services and purpose built network adapters, as well as high-performance cluster computer systems.

Segments

CSPI operates in two segments; High Performance Products ("HPP") and Technology Solutions ("TS").

HPP Segment

- The HPP segment designs and manufactures computing systems for digital signal processing ("DSP") applications within the defense market and network Ethernet adapters that are offered to both commercial and government customers. Our DSP revenue flows from a modest number of high-value customers.

- In addition, we continue to design and manufacture new product lines for our Myricom network Ethernet adapters that support the Company's HPP Segment. The Myricom product line of network Ethernet adapters target three specialized markets: (1) packet capture, (2) financial transactions and (3) storage interconnect market. The packet capture market includes government applications as well as original equipment manufacturer ("OEM") sales into vendors of computer security appliances. Our financial transactions customers are banks, brokerages, and other trading firms looking for low latency adapters with value-added features specifically tied to market data feeds. Our access to storage subsystems customers are primarily using our adapters for film editing but we also derive revenue from supercomputer installations and cable head ends.
- In fiscal year 2015, we continued to invest in R&D for a new generation of 100G network adapter products, and we expect to start to generate revenue from sales of these new products in fiscal year 2016. We sell our networking products primarily through third-party distributors.
- Our Ethernet adapter products have a lower average selling price ("ASP") than our signal processing products but sell in much higher volumes.

TS Segment

- The TS segment consists of the computer managed services, integration services, and third-party computer hardware and software value added reseller ("VAR") businesses of our wholly-owned Modcomp subsidiary ("TS"), which operates in the United States, Germany and the United Kingdom. TS markets and sells services and third party products through its own direct sales force. TS provides professional services for complex IT environments, including advanced security; unified communications and collaboration; wireless and mobility; data center solutions; and network solutions. TS also provides managed IT services. The Company leverages its IT expertise into a variety of vertical markets, including automotive; defense; healthcare; education; federal, state and local government; maritime; and many others.

Sales Information by Industry Segment

The following table details our sales by operating segment for fiscal years ending September 30, 2015 and 2014. Additional segment and geographical information is set forth in Note 14 to our financial statements.

Segment	2015	%	2014	%
	(Dollar amounts in thousands)			
HPP	\$ 13,948	16%	\$ 14,535	17%
TS	75,358	84%	70,084	83%
Total Sales	\$ 89,306	100%	\$ 84,619	100%

HPP Segment

Products and Services

In the HPP segment, we design, manufacture and deliver products and services to customers that require specialized networking and signal processing.

Our DSP product line (also referred to as the "Multicomputer" product portfolio) utilizes commercially available, industry standard compliant hardware components and open source software to deliver high-performance, high density and low power consuming computer solution to our customers. These systems incorporate tens to hundreds of processors, interconnected by a high-bandwidth network. They are specifically designed for analysis of complex signals and images in real-time or in modeling and simulations. CSPI's experience in processing density, large memory subsystems, high-bandwidth networking components, optimized signal processing libraries, and specialized algorithms facilitate use of these DSP products in the military/defense markets.

Our Ethernet adapters and solutions product line (also referred to as the "Myricom" product line) consist of high performance 10 Gigabit Ethernet adapters and application software specialized for vertical markets. By optimizing latency, throughput and cost, these solutions address the requirements of applications in the packet capture, financial transaction, broadcast video and media markets.

Products

CSPI's HPP segment continues to offer the Multicomputer product portfolio including its 2000 SERIES VME and 3000 SERIES VXS systems. The 2000 SERIES products, with PowerPC RISC processors with AltiVec™ technology, high-speed memory and Myrinet-2000™ cluster interconnect are in deployment by customers in the aerospace, commercial and defense markets seeking Commercial-Off-The-Shelf ("COTS") solutions to reduce costs and ensure widespread availability.

The 3000 SERIES VXS product line, incorporating the Freescale QorIQ PowerPC processors with AltiVec technology, delivers next generation performance to its predecessor products in interconnect bandwidth and processing density while preserving absolute code reuse at the application layer. The 3000 SERIES VXS product line targets 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 VXS supports the most prevalent networking standard found in both business and industrial settings.

With the purchase of the Myricom assets on November 4, 2013, the HPP segment acquired the interconnect technology critical to its latest generation of Multicomputer products as well as a strong base of new customers in commercial growth markets. Since the acquisition, the Company has offered Myricom Myri-10G Ethernet adapters and associated network adapter software. Myri-10G is a family of high performance 10 Gigabit Ethernet adapters for Linux, Windows, Mac OS X and VMware ESX.

During fiscal year 2015, CSPI launched the fourth generation of the Myricom network adapter product line. These adapters are purpose built for complex and demanding applications including automated trading and network monitoring. The 10 Gigabit Ethernet adapters ship with our DBL™ software, and target customers seeking ultra low latency to speed up financial trading applications. In addition, the adapters feature advanced server functions, such as A/B arbitration, and precision timestamping accuracy required for regulatory compliance. In addition, our network adapters continue to meet the critical requirements of accessibility and lossless data retrieval for media collaboration with 10GBASE-T adapters added to the list of Myricom adapters tested and qualified for use with the Avid® MediaCentral™ Platform. The latest version of the Sniffer10G application programming interface provides enterprise and government customers the ability to capture, inject, and analyze all network traffic at line rate on a 10 Gigabit Ethernet network. Our 100% lossless packet capture and packet injection, this performance enables thorough inspection of the network traffic to provide better detection of threats for cyber security environments. Sniffer10G serves a number of market segments including network surveillance, deep packet inspection and as a critical technology component within distributed denial-of-service (DDoS) defense appliances.

Royalties

We license the design of certain of our 2000 SERIES computer processor boards and switched interconnect technology to third parties. In exchange for licensing this technology, we receive a royalty payment for each processor board that the licensee produces that utilizes our design for these products.

Markets, Marketing and Dependence on Certain Customers

Aerospace & Defense Market

We market our Multicomputer products to defense and commercial markets with an emphasis on applications requiring the analysis of complex signals such as sonar, radar, seismic exploration and scientific/engineering research. We commercially distribute our products in these markets as an OEM supplier to system integrators, distributors and value-added resellers.

In the case of sales to the government, the prime contractor will typically incorporate our products into its own future product developments and, therefore, will need early access to low-level, detailed technical specifications and prototype units. These prime contractors typically demand 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 business relationships. However,

the result of this type of long-standing and committed business relationship is a strong potential for long-term revenue streams as programs progress from development phases into deployment.

Our use of high performance embedded computing technologies to support information exchange in real-time is becoming increasingly significant to 21st century “network centric warfare” military operations. In addition to upgrades of existing military programs, there has been steady growth of new programs requiring signal/image processing and analysis equipment. 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 by program and often extends beyond twenty-four months. Our focus for fiscal 2016 and beyond is to continue to build interest in our 3000 SERIES VXS products that integrate the latest PowerPC with AltiVec™ processors, while continuing to support established products and existing customer relationships.

Financial Transactions Market

Myricom network adapters with DBL™ application software address the need for the ultra-low latency required in the world of financial trading. Running DBL™ on Myri-10G extreme performance network adapters provides unmatched acceleration for 10 Gigabit Ethernet environments, with benchmarked application-to-application latency in the single digit microseconds for Linux and Microsoft Windows operating systems.

Packet Capture Market

Myricom Sniffer10G software, running on Myri-10G 10 Gigabit Ethernet adapters, provides enterprise and government customers and partners the ability to capture, inject, and analyze network traffic at line rate for all Ethernet packet sizes, with low host-CPU overhead. Sniffer10G serves the following market segments: network surveillance, monitoring and analysis; test, measurement and packet generation; deep packet inspection (DPI); and as a critical technology component within distributed denial-of-service (DDoS) defense appliances.

Storage Interconnect Market

Myricom network adapters are used in a wide range of applications that connect to storage subsystems using Ethernet. Most of these customers are using content creation applications from the storage system to video editing work stations. We also have customers in the supercomputing market and building cable head ends. These adapters with the Myri10GE software deliver best in class throughput performance for Ethernet controllers.

Competition

The markets for our HPP segment are very competitive. Customer requirements coupled with advances in technology drive our efforts to continuously improve existing products and develop new ones. Applications expertise, product innovation, strong technical support and dedicated customer service allow us to compete as a provider of high-performance products and solutions.

Our direct competitors for the Multicomputer products are Mercury Systems Inc., Kontron, Curtis Wright, and G. E. Intelligent Platforms, among others. 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 are formidable competitors in computation-intensive applications, such as radar and sonar. While we believe our products are designed to offer superior overall value in combined performance, features and price, we may not be able to overcome the capabilities of these much 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.

A continued presence in this market depends upon maintaining our strategic partnerships with prime contractors 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 products currently in production. A key area of opportunity exists in design wins on new programs.

Our primary direct competitors for the Myricom products are Solarflare and Intel, among others. In specific application areas we also compete with Napatech and Accolade Technology for the packet processing business; Small Tree, ATTO, and Chelsio in the content creation/post production markets; and Mellanox in the Financial Services arena.

Intel solutions will remain attractive to customers in markets that require the lowest price and whose needs are met by commodity hardware adapters. To compete, the Myricom products must offer a value proposition based on enhanced features, such as support of faster (40/100GbE) networks, precision time stamping and lossless packet capture, to justify our price differential.

Manufacturing, Assembly and Testing

Currently, all Multicomputer systems are shipped to our customers directly from our plant in Lowell, 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 third party 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 sub-assemblies and completed systems are subjected to extensive testing, including burn-in and environmental stress screening designed to minimize equipment failure at delivery and over the useful service life of the system. We also use diagnostic programs to detect and isolate potential component failures. A comprehensive log is maintained of past failures to monitor the ongoing reliability of our products and improve design standards.

Currently, Myricom products are shipped to our customers directly from our plants in Pasadena, California and Lowell, Massachusetts. Our network adapters are designed by us and fabricated by outside third party vendors. Material and components received from outside suppliers are inspected by our quality assurance technicians.

With respect to the products described above, we provide a warranty covering defects arising from products sold and service performed, which varies from 90 days to three years, depending upon the particular unit in question.

Sources and Availability of Raw Materials

Several components used in our HPP segment products are obtained from sole-source suppliers. We are dependent on key vendors such as Freescale Semiconductor, Inc. for PowerPC processors for our 2000 SERIES and our 3000 SERIES VXS products and Wind River Systems, Inc. for VxWorks operating system software. Despite our dependence on these sole-source suppliers, based on our current forecast, we do not consider the risk of interruption of supply to be significant to meet our projected sales obligations over the the near term, because we have adequate inventory on hand and/or our current requirements can be met in the existing supply chain.

Research and Development

For the year ended September 30, 2015 , our expenses for R&D were approximately \$2.8 million compared to approximately \$3.5 million for fiscal year 2014 . Expenditures for R&D are expensed as they are incurred. Product development efforts in fiscal year 2015 involved enhancements to our Myricom products, into which we expect to continue to make investments related to the development of new hardware adapter products and the software that enables the hardware to meet the needs of specific applications. Our current R&D plan is intended to extend the usefulness and marketability of these products by reducing latency, improving precision time stamping capabilities, and adding features, such as enhanced arbitration, to deliver products fine-tuned to meet the needs of our markets.

Patent rights are not material to our business.

Backlog

The backlog of customer orders and contracts in the HPP segment was approximately \$1.6 million at September 30, 2015 as compared to \$0.2 million at September 30, 2014 . Our backlog can fluctuate greatly. These fluctuations can be due to the timing of receipt of large orders often for purchases from prime contractors for sales to the government. It is expected that all of the customer orders in backlog will ship within the next twelve months.

TS Segment

Products and Services

Integration Solutions

In the TS segment, we focus on VAR integrated solutions including third-party hardware, software and technical computer-related consulting services and managed services. 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

Our wholly-owned subsidiary, 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, IBM, Juniper Networks, Dell, Citrix, EMC, Intel, VMWare, Fortinet, nCircle, Microsoft, Arcsight and Checkpoint. Through our business relationships with these vendors, we are able to offer competitively priced robust 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, healthcare services, distribution, financial services, professional services and manufacturing. We target SMB and LEB customers across all industries.

Professional Services

We provide professional IT consulting services in the following areas:

- Implementation, integration, migration, configuration, installation services and project management.
- Unified Storage Platforms ("USPs"). We help our customers implement USP solutions using products from Dell, EMC, HP and NetApp. USPs have advantages over conventional storage architecture, which 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 and Citrix. 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, Palo Alto, 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 the Payment Card Industry Data Security Standard (PCI DSS), the Health Insurance Portability and Accountability Act of 1996 (HIPAA), and internal control regulations under the Sarbanes-Oxley Act (SOX).
- Unified communications, wireless and routing and switching solutions using Cisco Systems and Aruba Networks 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.
- Managed IT services that include monitoring, reporting and management of alerts for the resolution and preventive general IT and IT security support tasks.
- Maintenance and technical support both for third-party products and proprietary Modcomp legacy PCDA systems, including hardware and software, operating system and user support.

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 and services we sell through sales offices in the U.S., Germany and the U.K. using our direct sales force (for a list of our locations, see Item 2 of this Form 10-K).

Competition

The primary competition in the TS segment is 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, Presidio and Computacenter AG & Co oHG. In addition, we compete directly with many of the companies who manufacture the third-party products that we sell, including Cisco Systems, IBM, HP EMC 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 TS segment include procurement capability, product diversity which enables the delivery of complete and custom solutions to our customers and the strength of our key business relationships with the major IT OEMs. We also consider our ability to supply unique and/or specialized needs of the SMB and LEB markets and our strong knowledge of the IT products that we sell to be a key competitive advantage. Our ability to provide managed services through our network operations center and the consulting integration services required to design and install the custom solutions that fit our customers' IT needs are distinct competitive advantages. Unfavorable competitive factors include low name recognition, limited geographic coverage and pricing.

Backlog

The backlog of customer orders and contracts for the TS segment was approximately \$10.1 million at September 30, 2015 , as compared to \$6.6 million at September 30, 2014 . 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 during fiscal year 2016.

Significant Customers

See Note 14 to the notes to the consolidated financial statements for detailed information regarding customers which comprised 10% or more of consolidated revenues for the years ended September 30, 2015 and 2014 .

Employees

On September 30, 2015 , we had approximately 172 full time equivalent employees worldwide for our consolidated operations. None of our employees are represented by a labor union and we have had no work stoppages in the last three fiscal years. 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 14 to the notes to the consolidated financial statements.

Item 1A. Risk Factors

If any of the risks and uncertainties set forth below actually materialize, our business, financial condition and/or results of operations could be materially and adversely affected, the trading price of our common stock could decline and a stockholder could lose all or part of his or her investment. The risks and uncertainties set forth below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also impair our business operations.

We depend on a small number of customers for a significant portion of our revenue and loss of any customer could significantly affect our business

We are dependent on a small number of customers for a large portion of our revenues. For the fiscal year ended September 30, 2015, just two customers accounted for approximately \$31.4 million in revenue, or 35% of our total revenues for the fiscal year. Both the HPP and TS 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 reduction 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 continue to grow or need 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.

We depend on contracts with the federal government for a significant portion of our revenue, and our business could be seriously harmed if the government significantly decreased or ceased doing business with us.

We derived 5% of our total revenue in fiscal year 2015 and 7% of our total revenue in fiscal year 2014 from the Department of Defense ("DoD") as a subcontractor. We expect that the DoD contracts will continue to be important to our business for the foreseeable future. If we were suspended or debarred from contracting with the federal government generally, the General Services Administration, or any significant agency in the intelligence community or the DoD, if our reputation or relationship with government agencies were to be impaired, or if the government otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our business, prospects, financial condition and operating results would be materially and adversely affected.

Our business could be adversely affected by changes in budgetary priorities of the federal government.

Because we derive a significant percentage of our revenue from contracts with the federal government, changes in federal government budgetary priorities could directly affect our financial performance. A significant decline in government expenditures, a shift of expenditures away from programs that we support or a change in federal government contracting policies could cause federal government agencies to reduce their purchases under contracts, to exercise their right to terminate contracts at any time without penalty or not to exercise options to renew contracts.

In years when Congress does not complete its budget process before the end of its fiscal year (September 30), government operations are funded through a continuing resolution (CR) that temporarily funds federal agencies. Recent CRs have generally provided funding at the levels provided in the previous fiscal year and have not authorized new spending initiatives. When the federal government operates under a CR, delays can occur in the procurement of products and services. Historically, such delays have not had a material effect on our business; however, should funding of the federal government by CR be prolonged or extended, and sequestration is not alleviated, it could continue to have significant consequences to our business and our industry.

Additionally, our business could be seriously affected if changes in DoD priorities reduces the demand for our services on contracts supporting some operations and maintenance activities or if we experience an increase in set-asides for small businesses, which could result in our inability to compete directly for prime contracts.

U.S. Federal government contracts contain numerous provisions that are unfavorable to us.

U.S. Federal government contracts contain provisions and are subject to laws and regulations that give the government rights and remedies, some of which are not typically found in commercial contracts, including allowing the government to:

- cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- claim rights in systems and software developed by us;
- suspend or debar us from doing business with the federal government or with a governmental agency;

- impose fines and penalties and subject us to criminal prosecution; and
- control or prohibit the export of our data and technology.

If the government terminates a contract for convenience, we may recover only our incurred or committed costs, settlement expenses and profit on work completed prior to the termination. If the government terminates a contract for default, we may be unable to recover even those amounts, and instead may be liable for excess costs incurred by the government in procuring undelivered items and services from another source. Depending on the value of a contract, such termination could cause our actual results to differ materially and adversely from those anticipated.

As is common with government contractors, we have experienced and continue to experience occasional performance issues under certain of our contracts. Depending upon the value of the matters affected, a performance problem that impacts our performance of a program or contract could cause our actual results to differ materially and adversely from those anticipated.

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 HPP products are currently obtained from sole-source suppliers. We are dependent on key vendors like Mellanox Technologies for our high-speed interconnect components. Generally, suppliers may terminate their purchase orders with us without cause upon 30 days' notice and may cease offering products to us upon 180 days' notice. Although we do not consider the risk of interruption of supply to be a significant risk in the near term, if in the future, Mellanox Technologies were to limit or reduce the sale of such components to us, or if these or other component suppliers, some of which are small companies, were to experience future financial difficulties or other problems which could prevent them from supplying 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 risks, 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.

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 34% and 37% of our total revenue for the fiscal years ended September 30, 2015 and 2014, 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.

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 or other key employees are subject to any employment contracts except Victor Dellovo, our Chief Executive Officer and President. 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.

Systems failures may disrupt our business and have an adverse effect on our results of operations.

Any systems failures, including network, software or hardware failures, whether caused by us, a third party service provider, unauthorized intruders and hackers, computer viruses, natural disasters, power shortages or terrorist attacks, could cause loss of data or interruptions or delays in our business or that of our clients. Like other companies, we have experienced cyber security threats to our data and systems, our company sensitive information, and our information technology infrastructure, including malware and computer virus attacks, unauthorized access, systems failures and temporary disruptions. We may experience similar security threats at customer sites that we operate and manage as a contractual requirement. Prior cyber attacks directed at us have not had a material adverse impact on our business or our financial results, and we believe that our continuing commitment toward threat detection and mitigation processes and procedures will avoid such impact in the future. Due to the evolving nature of these security threats, however, the impact of any future incident cannot be predicted.

In addition, the failure or disruption of our email, communications or utilities could cause us to interrupt or suspend our operations or otherwise harm our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption and, as a result, our actual results could differ materially and adversely from those anticipated.

The systems and networks that we maintain for our clients, although highly redundant in their design, could also fail. If a system or network we maintain were to fail or experience service interruptions, we might experience loss of revenue or face claims for damages or contract termination. Our errors and omissions liability insurance may be inadequate to compensate us for all the damages that we might incur and, as a result, our actual results could differ materially and adversely from those anticipated.

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. Many of our competitors are substantially larger than we are and have greater access to capital and human resources and in many cases price their products and services less than ours. In addition, due to the rapidly changing nature of technology, new competitors may emerge. 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.

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;
- whether or not we are able to secure 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.

To be successful, we must respond to the rapid changes in technology . If we are unable to do so on a timely basis our business could be materially adversely affected.

Our future success will depend in large part on our ability to enhance our current products and to develop new commercial products on a timely and cost-effective basis in order to respond to technological developments and changing customer needs. 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 HPP 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, particularly our HPP segment, to meet the needs of our customers. If we are unable to do so, our products could become less attractive to customers and our business could be materially adversely affected.

As a result of our need to maintain or increase our spending levels for R&D in this area and the difficulty in reducing costs associated with R&D, 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 R&D, spending as a percent of revenues may fluctuate in the future.

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

Our management identified an internal control material weakness as of March 31, 2014. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected in a timely basis.

The material weakness is in connection with our controls over the revenue recognition process, specifically that revenue recognition criteria have been satisfied prior to recognizing revenue and the failure to sufficiently assess gross versus net revenue indicators to certain revenue transactions. We determined that controls over the revenue recognition process were not operating effectively and the resulting control gap amounted to a material weakness in our controls over financial reporting. As a result, we had concluded that the Company's internal control over financial reporting was not effective as of September 30, 2014. Although we have implemented changes to our internal controls over financial reporting as described below, at this time we cannot conclude that the material weakness has been remediated.

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 statements or 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.

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.

You should not rely our forward looking statement as a prediction of actual future financial condition or results.

Item 2. Properties

Listed below are our principal facilities as of September 30, 2015. 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
HPP Segment Properties:			
CSP Inc. 43 Manning Road Billerica, MA	Corporate Headquarters Manufacturing, Sales, Marketing and Administration	Leased	11,450 S.F.
CSP Inc., DBA Myricom 3871 East Colorado Blvd Pasadena, CA	Sales, Marketing and Administration	Leased	2,450 S.F.
TS Segment Properties:			
Modcomp, Inc. 1182 East Newport Center Drive Deerfield Beach, FL	Division Headquarters Sales, Marketing and Administration	Leased	11,815 S.F.
Modular Computer Systems GmbH Oskar-Jager-Strasse 50 D-50825 Koln Germany	Sales, Marketing, Service and Administration	Leased	12,443 S.F.
Modcomp, Ltd. 12a Oaklands Business Park, Fishponds Road Wokingham Berkshire United Kingdom	Sales, Marketing and Administration	Leased	2,490 S.F.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not Applicable.

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.

<u>Fiscal Year:</u>	2015		2014	
	High	Low	High	Low
1st Quarter	\$ 8.34	\$ 6.90	\$ 8.39	\$ 6.71
2nd Quarter	7.79	6.18	8.79	7.29
3rd Quarter	7.79	6.46	7.89	6.50
4th Quarter	7.19	5.30	8.48	6.80

Stockholders. We had approximately 86 holders of record of our common stock as of December 23, 2015. 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 1,600.

Dividends. On December 17, 2013, our board of directors declared a cash dividend of \$0.10 per share which was paid on January 7, 2014 to stockholders of record as of December 27, 2013. On February 11, 2014, our board of directors declared a cash dividend of \$0.11 per share which was paid on March 11, 2014 to stockholders of record as of February 27, 2014. On May 14, 2014, our board of directors declared a cash dividend of \$0.11 per share which was paid on June 10, 2014 to stockholders of record as of May 30, 2014. On August 6, 2014, our board of directors declared a cash dividend of \$0.11 per share which was paid on August 29, 2014 to stockholders of record as of August 21, 2014, the record date.

On December 16, 2014, the Company's board of directors declared a cash dividend of \$0.11 per share which was paid on January 8, 2015 to shareholders of record as of December 28, 2014, the record date. On February 11, 2015, the Company's board of directors declared a cash dividend of \$0.11 per share which was paid on March 12, 2015 to shareholders of record as of February 26, 2015, the record date. On May 13, 2015, the Company's board of directors declared a cash dividend of \$0.11 per share which was paid on June 10, 2015 to shareholders of record as of May 29, 2015, the record date. On August 12, 2015, the Company's board of directors declared a cash dividend of \$0.11 per share which was paid on September 11, 2015 to shareholders of record as of August 26, 2015, the record date.

On December 23, 2015, the Company's board of directors declared a cash dividend of \$0.11 per share which will be paid on January 11, 2016 to shareholders of record as of December 31, 2015, the record date.

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

This management's discussion and analysis of financial condition and results of operations and other portions of this filing contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by the forward-looking information. You should review the "Special Note Regarding Forward Looking Statements" and "Risk Factors" sections of this annual report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. The following discussion should be read in conjunction with our financial statements and the related notes included elsewhere in this filing

Overview of Fiscal 2015 Results of Operations

Revenue increased by approximately \$4.7 million, or 6%, to \$89.3 million for the twelve months ended September 30, 2015 versus \$84.6 million for the twelve months ended September 30, 2014.

Our gross profit margin percentage decreased overall, from 25% of revenues for the twelve months ended September 30, 2014 to 21% for the twelve months ended September 30, 2015. The fiscal year 2015 gross margin decrease is primarily attributed having one less high margin plane related royalty, changes in product mix and the impact of cost overruns in our U.K. division.

We generated operating income of approximately \$0.2 million for the fiscal year ended September 30, 2015 compared to \$1.7 million of operating income for the fiscal year ended September 30, 2014.

The following table details our results of operations in dollars and as a percentage of sales for the fiscal years ended:

	September 30, 2015	% of sales	September 30, 2014	% of sales
(Dollar amounts in thousands)				
Sales	\$ 89,306	100 %	\$ 84,619	100 %
Costs and expenses:				
Cost of sales	70,119	79 %	63,798	76 %
Engineering and development	2,826	3 %	3,484	4 %
Selling, general and administrative	16,135	18 %	16,116	19 %
Total costs and expenses	89,080	100 %	83,398	99 %
Bargain purchase gain, net of tax	—	— %	462	1 %
Operating income	226	— %	1,683	2 %
Other expense	(210)	— %	(228)	— %
Income before income taxes	16	— %	1,455	2 %
Income tax expense	226	— %	121	— %
Net income (loss)	\$ (210)	— %	\$ 1,334	2 %

Revenues

Revenue increased by approximately \$4.7 million, or 6%, to \$89.3 million for the twelve months ended September 30, 2015 versus \$84.6 million for the twelve months ended September 30, 2014. HPP revenue decreased by approximately \$0.6 million and TS revenues increased by \$5.3 million. The HPP segment revenue decrease is attributed to having one less plane royalty and lower Multicomputer repair volumes, which was partially offset by increased Myricom product revenue. The TS segment revenues for our U.S. and U.K. divisions were \$5.8 million and \$1.7 million higher, respectively, than the prior year, but were partially offset by a \$2.2 million decrease in revenue for our German division.

HPP segment revenue change by product line for the twelve months ended September 30 was as follows :

(Dollar amounts in thousands)

			Increase (Decrease)	
	2015	2014	\$	%
Product	\$ 9,894	\$ 9,151	\$ 743	8 %
Services	4,054	5,384	(1,330)	(25)%
Total	\$ 13,948	\$ 14,535	\$ (587)	(4)%

The increase in HPP product revenues for fiscal year 2015 compared to fiscal year 2014 was the result of an increase in Myricom product revenues. This increase in product revenues was more than offset by the reduction in service revenues attributed to lower plane related royalties and the timing of repairs. The HPP segment recognized approximately \$4.5 million of royalty and licensing revenue related to six planes in fiscal year 2014 as compared to \$3.5 million of royalty revenue related to five planes in fiscal year 2015. We expect to recognize royalty revenue related to five planes during fiscal year 2016.

TS segment revenue change by product line for the twelve months ended September 30 was as follows:

(Dollar amounts in thousands)

			Increase (Decrease)	
	2015	2014	\$	%
Product	\$ 56,553	\$ 49,726	\$ 6,827	14 %
Services	18,805	20,358	(1,553)	(8)%
Total	\$ 75,358	\$ 70,084	\$ 5,274	8 %

The increase in TS segment revenues, for fiscal year 2015 compared to fiscal year 2014, was the result of increases in our US and UK divisions of \$5.8 million and \$1.7 million , respectively, partially offset by a decrease in our German division of \$2.2 million . The increase in TS segment product revenues, for fiscal year 2015 compared to fiscal year 2014, was the result of increases in our US and UK divisions of \$6.4 million and \$1.9 million , respectfully, partially offset by a decline in Germany of \$1.5 million .

Our revenues by geographic area based on the location to which the products were shipped or services rendered was as follows:

(Dollar amounts in thousands)

	For the Twelve Months Ended September 30,				Increase (Decrease)	
	2015	%	2014	%	\$	%
Americas	\$ 58,433	66%	\$ 53,561	63%	\$ 4,872	9 %
Europe	27,848	31%	28,396	34%	(548)	(2)%
Asia	3,025	3%	2,662	3%	363	14 %
Totals	\$ 89,306	100%	\$ 84,619	100%	\$ 4,687	6 %

Gross Margins

Our gross margin decreased by \$1.6 million or (4)% of revenues to \$19.2 million in fiscal year 2015 as compared to a gross margin of \$20.8 million in fiscal year 2014.

The following table summarizes gross margin changes by segment for fiscal year 2015 and 2014:

(Dollar amounts in thousands)

	2015		2014		Decrease	
	GMS	GM%	GMS	GM%	GMS	GM%
HPP	\$ 7,949	57%	\$ 9,167	63%	\$ (1,218)	(6)%
TS	11,238	15%	11,654	17%	(416)	(2)%
Total	\$ 19,187	21%	\$ 20,821	25%	\$ (1,634)	(4)%

The impact of product mix within our HPP segment on gross margin for the twelve months ended September 30 was as follows:

(Dollar amounts in thousands)

	2015		2014		Increase (Decrease)	
	GMS	GM%	GMS	GM%	GMS	GM%
Product	\$ 3,985	40%	\$ 3,911	43%	\$ 74	(3)%
Services	3,964	98%	5,256	98%	(1,292)	—%
Total	\$ 7,949	57%	\$ 9,167	63%	\$ (1,218)	(6)%

The decrease in our HPP segment gross margins is primarily attributed to the impact of \$4.5 million of royalty licensing revenue related to six planes at approximately 100% gross margin in fiscal year 2014 as compared to \$3.5 million of plane related royalties in fiscal year 2015 as well as a decrease in revenue for replacement parts and repairs for the comparative period.

The impact of product mix within our TS segment on gross margin for the twelve months ended September 30 was as follows:

(Dollar amounts in thousands)

	2015		2014		Increase (decrease)	
	GMS	GM%	GMS	GM%	GMS	GM%
Product	\$ 6,984	12%	\$ 6,215	12%	\$ 769	—%
Services	4,254	23%	5,439	27%	(1,185)	(4)%
Total	\$ 11,238	15%	\$ 11,654	17%	\$ (416)	(2)%

For fiscal year 2015 compared to fiscal year 2014, the decrease in our TS segment gross margin of \$0.4 million is primarily attributed to the decreases in gross margin of \$0.3 million and \$0.2 million in our U.K. and German divisions, respectively, partially offset by a \$0.1 million increase in our U.S. division. The \$0.8 million increase in product gross margins is primarily attributed to increases of \$0.3 million and \$0.5 million in the U.K. and U.S. divisions, respectively. The \$1.2 million decrease in service gross margins is primarily attributed to decreases of \$0.4 million and \$0.6 million in the U.S. and U.K. divisions, respectively. The U.K. variance is attributed to the under utilization of engineering overhead and the recognition of cost over runs on certain fixed price contracts in the U.K. division, and the decrease in U.S. division margin is attributed to lower service revenues.

Engineering and Development Expenses

The following table details our engineering and development expenses by operating segment for the fiscal years ended September 30, 2015 and 2014:

(Dollar amounts in thousands)

For the Year ended September 30,						
	2015	% of Total	2014	% of Total	\$ Increase (Decrease)	% Increase (Decrease)
By Operating Segment:						
HPP	\$ 2,772	98%	\$ 3,484	100%	\$ (712)	(20)%
TS	54	2%	—	—%	54	— %
Total	\$ 2,826	100%	\$ 3,484	100%	\$ (658)	(19)%

The decrease in engineering and development expenses in the HPP segment is attributed to the timing of expenditures and reductions in cost. The fiscal year 2015 expenses are primarily for Myricom engineering expenses incurred in connection with the development of new products, which includes the release of our Myricom 10 Gigabyte Ethernet Adapters with DBL software on July 7, 2015, during the fourth quarter of our fiscal year.

Selling, General and Administrative

The following table details our selling, general and administrative (“SG&A”) expense by operating segment for the years ended September 30, 2015 and 2014:

(Dollar amounts in thousands)

For the Year ended September 30.						
	2015	% of Total	2014	% of Total	\$ Increase (Decrease)	% Increase (Decrease)
By Operating Segment:						
HPP	\$ 4,692	29%	\$ 4,793	30%	\$ (101)	(2)%
TS	11,443	71%	11,323	70%	120	1 %
Total	\$ 16,135	100%	\$ 16,116	100%	\$ 19	— %

For fiscal year 2015 compared to fiscal year 2014, HPP segment SG&A spending decreased overall by \$0.1 million, which reflected increases of \$0.4 million for salaries and wages and \$0.2 million for employee benefits that were offset by decreased spending on outside consultants of \$0.3 million, lower bonus expense of \$0.3 million, and net other reductions of \$0.1 million. For fiscal year 2015 compared to fiscal year 2014, TS segment SG&A spending increased by \$0.1 million as the result higher sales compensation expense in the US and UK.

Other Income/Expenses

The following table details our other income/expenses for the years ended September 30, 2015 and 2014:

	For the Year ended September 30,		
	2015	2014	Increase (Decrease)
Interest expense	\$ (84)	\$ (85)	\$ 1
Interest income	9	11	(2)
Foreign exchange loss	(172)	(162)	(10)
Other income, net	37	8	29
Total other expense, net	<u>\$ (210)</u>	<u>\$ (228)</u>	<u>\$ 18</u>

Income Taxes

The Company recorded an income tax expense of approximately \$0.2 million, which reflected an effective tax expense rate of 1414% for the year ended September 30, 2015, compared to income tax expense of approximately \$0.1 million for the year ended September 30, 2014, which reflected an effective tax rate of 8%. The significant increase in the effective tax rate for the year ended September 30, 2015 was due to the fact that no tax benefit was recorded from the substantial loss in the UK due to the fact that a full valuation allowance is maintained against the deferred tax assets as discussed below.

As of September 30, 2015, management assessed the positive and negative evidence in the U.S operations, and estimated we will have sufficient future taxable income to utilize the existing deferred tax assets. Significant objective positive evidence included the cumulative profits that we realized over the most recent years. This evidence enhances our ability to consider other subjective evidence such as our projections for future growth. Other factors we considered are the likelihood for continued royalty income in future years, and our expectation that the TS segment will continue to be profitable in future years. On the basis of this evaluation, as of September 30, 2015, we have concluded that our U.S. deferred tax asset is more likely than not to be realized. It should be noted however, that the amount of the deferred tax asset realized could be adjusted in future years, if estimates of taxable income during the carryforward periods are reduced, or if objective negative evidence in the form of cumulative losses is present.

We continue to maintain a full valuation allowance against our U.K. 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 assets may change.

Liquidity and Capital Resources

Our primary source of liquidity is our cash and cash equivalents, which decreased by approximately \$5.2 million to \$11.2 million as of September 30, 2015 from \$16.4 million as of September 30, 2014 . At September 30, 2015 , cash equivalents totaled \$0.5 million .

Significant uses of cash for the year ended September 30, 2015 included an increase in accounts receivable of approximately \$8.2 million , payment of dividends of approximately \$1.6 million , a decrease in deferred revenue of approximately \$0.8 million , purchases of property and equipment of approximately \$0.7 million , and unfavorable currency exchange fluctuation of approximately \$0.6 million . Partially offsetting these uses of cash were an increase in accounts payable and accrued expenses of approximately \$4.5 million .

Cash held by our foreign subsidiaries located in Germany and the U.K. totaled approximately \$3.3 million as of September 30, 2015 and \$7.1 million as of September 30, 2014 . This cash is included in our total cash and cash equivalents reported above. We consider this cash to be permanently reinvested into these foreign locations because repatriating it would result in unfavorable tax consequences. Consequently, it is not available for activities that would require it to be repatriated to the U.S.

As of September 30, 2015 and September 30, 2014, the Company maintained a line of credit that allows for borrowings of up to \$1.0 million. Availability under the facility is reduced by outstanding borrowings thereunder. The interest rates on outstanding borrowings is London Inter-Bank Offer Rate (“LIBOR”) plus 2.5%, with a floor of 4% . Borrowings under the credit agreements are required to be repaid on demand by the lender in certain circumstances, upon termination of the agreements, or may be prepaid by the Company without penalty. The Company did not borrow under the line of credit during the fiscal years ending September 30, 2015 and 2014.

As of September 30, 2015 and September 30, 2014, the Company also maintained an inventory line of credit that may be used by the TS business segment in the U.S. to purchase inventory from approved vendors with payment terms which exceed those offered by the vendors. No interest accrues under the inventory line of credit when advances are paid within terms, late payments are subject to an interest charge of Prime plus 5%. The credit agreements for the inventory line of credit contain financial covenants which require the Company to maintain the following TS segment specific financial ratios: (1) a minimum current ratio of 1.2, (2) tangible net worth of no less than \$2.5 million, and (3) a maximum ratio of total liabilities to total net worth of less than 5.0:1. As of September 30, 2015 and September 30, 2014, Company borrowings under the inventory line of credit were \$2.9 million and \$2.1 million, respectively, and the Company was in compliance with all covenants for the inventory line of credit as of September 30, 2015 and 2014.

For more information, please refer to Note 12 - Lines of Credit, in the Notes to our Consolidated Financial Statements contained in this annual report on Form 10-K.

If cash generated from operations is insufficient to satisfy working capital requirements, we may need to access funds through bank loans, the equity markets, 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, the cash generated from operations and availability on our lines of credit 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; intangibles; and pension and retirement plans.

Revenue Recognition

We derive revenue from the sale of integrated hardware and software, professional services, maintenance contracts, other services, and third party service contracts. Professional services generally include implementation, installation, and training services. Other services generally include revenue generated through our royalty and extended warranty contracts. We recognize revenue when persuasive evidence of an arrangement exists, delivery of the product or service has occurred, the fee is fixed or determinable and collectability is reasonably assured. We enter into multiple element arrangements as well as standalone sales of product, professional services, and other services.

We recognize revenue from standalone product sales upon transfer of title, which is typically upon shipment, provided all other revenue recognition criteria have been met. Revenue generated from standalone professional services and extended warranty contracts is recognized as services are completed, provided all other revenue recognition criteria have been met. In some instances professional service contracts include a customer acceptance provision, in which case revenue is deferred until we have evidence of customer acceptance. We recognize revenue from usage based royalty contracts upon confirmation from the customer of shipment of the system produced pursuant to the royalty agreement.

We recognize revenue from multiple element arrangements in accordance with ASC 605-25, Multiple Element Arrangements. We evaluate multiple element arrangements to determine if separate units of accounting exist, and if so, we allocate revenue to each element based upon the relative selling price of each element. ASC 605-25 establishes a hierarchy for determining the amount to allocate to each separate deliverable in an arrangement. We determine selling price using vendor specific objective evidence (“VSOE”), if it exists; or, if VSOE does not exist, third party evidence (“TPE”) of fair value is applicable; otherwise, we use the best estimate of selling price (“BESP”). The objective of BESP is to determine the price at which the Company would transact if the element was sold on a standalone basis. Management’s determination of BESP involves several factors including budgeted profit margins, and cost to complete services.

We recognize revenue from third party service contracts as either gross sales or net sales in accordance ASC 605-45, Principal Agent Considerations, which requires us to determine if the Company is acting as a principal party to the transaction or simply acting as an agent or broker. Under ASC 605-45, the assumption of the risks and rewards under the arrangement are considered indicators of principal parties to the arrangement. We record revenue as gross when it is a principal party to the arrangement and net of cost when we are acting as a broker or agent. Under gross sales recognition, the entire selling price is recorded in revenue 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 revenue resulting in net sales equal to the gross profit on the transaction.

The following policies are applicable to our major categories of segment revenue transactions:

HPP Segment Revenue

HPP segment revenue is derived from the sale of integrated hardware and software, maintenance, and other services through the Multi-computer and Myricom product lines. Multi-computer product revenue is generally recognized when product is shipped, provided that all revenue recognition criteria are met. Service revenue consists principally of other

services which comprise of warranty and royalty revenue. Revenue generated from extended warranty contracts is recognized as services are completed, provided all other revenue recognition criteria have been met. We recognize revenue from usage based royalty contracts upon confirmation from the customer of shipment of the system produced pursuant to the royalty agreement.

Myricom revenue is derived from the sale of products, which are comprised of both hardware and embedded software which is essential to the products functionality, and post contract maintenance and support. Revenue on multiple element arrangements is recognized in accordance with ASC 605-25. We evaluate multiple element arrangements to determine if separate units of accounting exist, and if so, we allocate revenue to each element based upon the relative selling price of each element. We determine selling price using BEBP. Management's determination of BEBP is based on several factors, including, but not limited to, internal costs and gross margin objectives. Accordingly revenue for post contract maintenance and support is recognized over the implied maintenance period of three years, and revenue for product sales is recognized upon delivery assuming all other revenue recognition criteria have been met.

TS Segment Revenue

TS Segment revenue is derived from the sale of hardware, software, professional services, and third party service contracts. TS product revenue is generally recognized when product is shipped, provided that all revenue recognition criteria are met. Service revenue consists of professional services which generally include implementation, installation, and training services. Revenue generated from standalone professional services is recognized as services are completed, provided all other revenue recognition criteria has been met. Our 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 we have evidence of customer acceptance.

Revenue derived from the sale of products, which are comprised of both hardware and software, and professional services is recognized in accordance with ASC 605-25. We evaluate multiple element arrangements to determine if separate units of accounting exist, and if so, we allocate revenue to each element based upon the relative selling price of each element. We determine selling price using BEBP. Management's determination of BEBP is based on several factors, including, but not limited to, internal costs and gross margin objectives. Accordingly revenue for professional services is recognized as services are completed, and revenue for product sales is recognized upon delivery assuming all other revenue recognition criteria have been met.

We recognize revenue from certain third party service contracts, which are evaluated to determine whether such service revenue should be recorded as gross sales or net sales in accordance ASC 605-45. We evaluate all third party service contracts to determine whether we act as a principal in the transaction and assume the risks and rewards 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 net sales recognition method for the third party service contracts that we sell when we are not the primary obligor on the contract. We use the gross sales recognition for the third party service contracts that we sell when we act as principal and are the primary obligor.

Product Warranty Accrual

Our product sales generally include a 90-day to three-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.

Intangible Assets

Intangible assets 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, 2015. 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.

Pension and Retirement Plans

The funded status of pension and other post-retirement 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/post-retirement 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, 2015. 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, 2015. These supplementary 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 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 and rates of return with our consulting actuaries and investment advisers 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.

Inflation and Changing Prices

Management does not believe that inflation and changing prices had significant impact on sales, revenues or income (loss) during fiscal 2015 or 2014 . 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 Disclosures*

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, 2015. 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, 2015, the Company’s chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were not effective, due to the fact that we are not yet able to conclude that the material weakness described in this Item 9A has been remediated by the changes we made in response to that material weakness.

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, 2015. 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 not effective as of September 30, 2015.

For the period ended September 30, 2015, management has identified a material weakness. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected in a timely basis.

The material weakness is in connection with our controls over the revenue recognition process, specifically that revenue recognition criteria have been satisfied prior to recognizing revenue and the failure to sufficiently assess gross versus net revenue indicators to certain revenue transactions. We determined that controls over the revenue recognition process were not operating effectively and the resulting control gap amounted to a material weakness in our controls over financial reporting. As a result, we had concluded that the Company’s internal control over financial reporting was not effective as of September 30, 2015. Although we have implemented changes to our internal controls over financial reporting as described below, at this time we cannot conclude that the material weakness has been remediated, as we continued to make personnel changes and upgrade systems throughout fiscal year 2015.

During the periods following our initial identification of the material weakness referred to above, management assessed various alternatives to remediate this material weakness and we implemented changes to our system of internal controls, which included the implementation enhanced internal auditing procedures, whereby revenue transactions are subjected to an additional review process at the corporate level to ensure the correct accounting methodology is applied to all revenue transactions. During the twelve months ended September 30, 2015, management took additional action to upgrade our international accounting staff and improved accounting operations in our European divisions.

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, 2015 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, 2015, 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.

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 2014 Annual Meeting of Stockholders, to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2015.

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 2015 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2015.

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. 1997 Incentive Stock Option Plan, the 2003 Stock Incentive Plan, the 2007 Stock Incentive Plan, the 2014 Employee Stock Purchase Plan (the "ESPP") and the 2015 Stock Incentive Plan. In fiscal 2015 and 2014, 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, 2015 regarding the total number of securities outstanding under these equity compensation plans.

Plan Category	(a) (1)(2) Number of securities to be issued upon exercise of outstanding stock options and non-vested shares issued	(b) Weighted-average exercise price of outstanding stock options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(3)
Equity compensation plans approved by security holders	356,471	\$ 6.43	533,003

(1) Includes 301,345 non-vested shares issued.

(2) 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.

(3) Includes 327,673 shares available for future issuance under the incentive stock and stock option plans and 205,330 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 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2015.

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 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2015.

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 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2015.

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, 2015 and 2014

Consolidated Statements of Operations for the years ended September 30, 2015 and 2014

Consolidated Statements of Comprehensive Income (Loss) for the years ended September 30, 2015 and 2014 .

Consolidated Statements of Shareholders' Equity for the years ended September 30, 2015 and 2014

Consolidated Statements of Cash Flows for the years ended September 30, 2015 and 2014

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		Exhibit No.
			Form	Filing Date	
3.1	Articles of Organization and amendments thereto		10-K	December 26, 2007	3.1
3.2	By-laws, as amended December 13, 2012		10-K	December 20, 2012	3.1
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
10.9*	2007 Stock Incentive Plan		DEF 14A	March 30, 2007	B
10.10*	2014 Variable Compensation (Executive Bonus) and Base Programs dated November 12, 2013				10.1
10.11*	Death Benefit and Retirement Benefit Agreement between the Company and Victor Dellovo dated September 13, 2013		10-K	December 24, 2013	10.11
10.12*	Form of Change of Control Agreement with Gary W. Levine and William E. Bent Jr. each dated January 11, 2008		10-K	December 22, 2009	10.11
10.15*	2014 Employee Stock Purchase Plan		DEF 14A	January 6, 2014	A
10.16*	2015 Employee Stock Purchase Plan		DEF 14A	January 5, 2015	A
10.20	2015 Lowell, MA Lease	X			
10.21	2015 Deerfield Beach, FL Lease	X			
21.1	Subsidiaries	X			
23.1	Consent of RSM 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 and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X			
101.INS	XBRL Instance				
101.SCH	XBRL Taxonomy Schema				
101.CAL	XBRL Taxonomy Extension Calculation				
101.DEF	XBRL Taxonomy Extension Definition				
101.LAB	XBRL Taxonomy Extension Labels				
101.PRE	XBRL Taxonomy Extension Presentation				

* 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.

By: /s/ Victor Dellovo

Victor Dellovo
Chief Executive Officer and President

Date: December 24, 2015

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.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Victor Dellovo</u> Victor Dellovo	Chief Executive Officer, President and Director	December 24, 2015
<u>/s/ Gary W. Levine</u> Gary W. Levine	Chief Financial Officer (Principal Financial Officer)	December 24, 2015
<u>/s/ John M. Leydon</u> John M. Leydon	Vice President of Finance (Chief Accounting Officer)	December 24, 2015
<u>/s/ C. Shelton James</u> C. Shelton James	Director	December 24, 2015
<u>/s/ Raymond Charles Blackmon</u> Raymond Charles Blackmon	Director	December 24, 2015
<u>/s/ Myrilyn T. Smith</u> Marilyn T. Smith	Director	December 24, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
CSP Inc. and Subsidiaries
Lowell, MA

We have audited the accompanying consolidated balance sheets of CSP Inc. and Subsidiaries (the "Company") as of September 30, 2015 and 2014, and the related statements of operations, comprehensive income, stockholders' equity, 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 the Company as of September 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

RSM US LLP

Boston, Massachusetts
December 24, 2015

CSP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except par value)

	September 30, 2015	September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,181	\$ 16,448
Accounts receivable, net of allowances of \$331 and \$241	18,468	12,279
Unbilled accounts receivable	1,420	253
Inventories, net	5,749	6,446
Refundable income taxes	43	418
Deferred income taxes	1,337	1,230
Other current assets	1,884	2,372
Total current assets	40,082	39,446
Property, equipment and improvements, net	1,564	1,472
Other assets:		
Intangibles, net	416	545
Deferred income taxes	1,687	1,892
Cash surrender value of life insurance	3,064	2,785
Other assets	183	167
Total other assets	5,350	5,389
Total assets	\$ 46,996	\$ 46,307
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 13,776	\$ 9,751
Deferred revenue	2,931	4,101
Pension and retirement plans	675	658
Income taxes payable	—	1
Total current liabilities	17,382	14,511
Pension and retirement plans	10,009	10,440
Other long term liabilities	15	69
Total liabilities	27,406	25,020
Commitments and contingencies		
Shareholders' equity:		
Common stock, \$.01 par value per share; authorized, 7,500 shares; issued and outstanding 3,688 and 3,619 shares, respectively	37	36
Additional paid-in capital	12,249	11,658
Retained earnings	15,689	17,517
Accumulated other comprehensive loss	(8,385)	(7,924)
Total shareholders' equity	19,590	21,287
Total liabilities and shareholders' equity	\$ 46,996	\$ 46,307

See accompanying notes to consolidated financial statements.

CSP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except for per share data)

	For the year ended	
	September 30, 2015	September 30, 2014
Sales:		
Product	\$ 66,447	\$ 58,877
Services	22,859	25,742
Total sales	89,306	84,619
Cost of sales:		
Product	55,478	48,751
Services	14,641	15,047
Total cost of sales	70,119	63,798
Gross profit	19,187	20,821
Operating expenses:		
Engineering and development	2,826	3,484
Selling, general and administrative	16,135	16,116
Total operating expenses	18,961	19,600
Bargain purchase gain	—	462
Operating income	226	1,683
Other (expense):		
Foreign exchange loss	(172)	(162)
Other income (expense), net	(38)	(66)
Total other (expense), net	(210)	(228)
Income before income taxes	16	1,455
Income tax expense	226	121
Net income (loss)	\$ (210)	\$ 1,334
Net income (loss) attributable to common stockholders	\$ (210)	\$ 1,284
Net income (loss) per share – basic	\$ (0.06)	\$ 0.37
Weighted average shares outstanding – basic	3,548	3,448
Net income (loss) per share – diluted	\$ (0.06)	\$ 0.37
Weighted average shares outstanding – diluted	3,548	3,499

See accompanying notes to consolidated financial statements.

CSP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Amounts in thousands)

	For the year ended	
	September 30, 2015	September 30, 2014
Net income (loss)	\$ (210)	\$ 1,334
Other comprehensive income (loss):		
Unrealized actuarial loss on minimum pension liability	(131)	(1,720)
Foreign currency translation gain (loss)	(330)	(339)
Other comprehensive loss	(461)	(2,059)
Total comprehensive loss	<u>\$ (671)</u>	<u>\$ (725)</u>

See accompanying notes to consolidated financial statements.

CSP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Year Ended September 30, 2015:
(Amounts in thousands)

	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated other comprehensive loss	Total Shareholders' Equity
Balance as of September 30, 2013	3,496	\$ 35	\$ 11,137	\$ 17,728	\$ (5,865)	\$ 23,035
Comprehensive income (loss):						
Net income	—	—	—	1,334	—	1,334
Other comprehensive loss	—	—	—	—	(2,059)	(2,059)
Stock-based compensation	—	—	359	—	—	359
Tax benefit from exercise of stock options	—	—	47	—	—	47
Restricted stock issuance	106	1	—	—	—	1
Issuance of shares under employee stock purchase plan	14	—	99	—	—	99
Exercise of stock options	3	—	16	—	—	16
Cash dividends on common stock (\$0.43 per share)	—	—	—	(1,545)	—	(1,545)
Balance as of September 30, 2014	3,619	36	11,658	17,517	(7,924)	21,287
Comprehensive loss:						
Net loss	—	—	—	(210)	—	(210)
Other comprehensive loss	—	—	—	—	(461)	(461)
Stock-based compensation	—	—	375	—	—	375
Restricted stock issuance	36	1	—	—	—	1
Issuance of shares under employee stock purchase plan	31	—	206	—	—	206
Exercise of stock options	2	—	10	—	—	10
Cash dividends on common stock (\$0.44 per share)	—	—	—	(1,618)	—	(1,618)
Balance as of September 30, 2015	3,688	\$ 37	\$ 12,249	\$ 15,689	\$ (8,385)	\$ 19,590

See accompanying notes to consolidated financial statements.

CSP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	For the year ended	
	September 30, 2015	September 30, 2014
Cash flows from operating activities:		
Net income (loss)	\$ (210)	\$ 1,334
Adjustments to reconcile net income to net cash used in operating activities:		
Bargain purchase gain	—	(462)
Depreciation and amortization	516	510
Amortization of intangibles	130	124
Loss on disposal of fixed assets, net	54	5
Foreign exchange loss	172	162
Non-cash changes in accounts receivable	96	1
Non-cash changes in inventory	560	407
Stock-based compensation expense on stock options and restricted stock awards	375	361
Deferred income taxes	2	(98)
Increase in cash surrender value of life insurance	(86)	(135)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(8,226)	647
(Increase) decrease in inventories	78	(1,038)
Decrease in refundable income taxes	356	194
(Increase) decrease in other assets	328	(351)
Increase (decrease) in accounts payable and accrued expenses	4,461	(656)
Increase (decrease) in deferred revenue	(812)	513
Increase (decrease) in pension and retirement plans liability	(83)	252
Increase (decrease) in income taxes payable	4	(311)
Decrease in other long term liabilities	(55)	(336)
Net cash provided by (used in) operating activities	(2,340)	1,123
Cash flows from investing activities:		
Life insurance premiums paid	(193)	(170)
Proceeds from the sale of fixed assets	—	6
Cash paid to acquire business	—	(500)
Purchases of property, equipment and improvements	(724)	(590)
Net cash used in investing activities	(917)	(1,254)
Cash flows from financing activities:		
Dividends paid	(1,618)	(1,545)
Tax benefit from exercise of stock options	—	47
Proceeds from issuance of shares under equity compensation plans	216	114
Net cash used in financing activities	(1,402)	(1,384)
Effects of exchange rate on cash	(608)	(656)
Net decrease in cash and cash equivalents	(5,267)	(2,171)
Cash and cash equivalents, beginning of period	16,448	18,619
Cash and cash equivalents, end of period	\$ 11,181	\$ 16,448
Supplementary cash flow information:		
Cash paid for income taxes	\$ 15	\$ 201
Cash paid for interest	\$ 85	\$ 85

See accompanying notes to consolidated financial statements.

CSP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

Organization and Business

CSP Inc. (“CSPI” or “the Company” or “we” or “our”) was founded in 1968 and is based in Lowell, Massachusetts. To meet the diverse requirements of 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 HPP segment and its TS 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. Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

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

Research and Development Expense

For the years ended September 30, 2015 and 2014, our expenses for research and development were approximately \$2.8 million and \$3.5 million, respectively. Expenditures for research and development are expensed as they are incurred.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets, including intangible assets subject to amortization, 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. Intangible assets 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 at any time during the two years ended September 30, 2015. Intangible assets subject to amortization are amortized on a straight-line basis 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 the 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. Accounts receivable are charged off against the reserve when management has determined they are uncollectible.

Pension and Retirement Plans

The funded status of pension and other postretirement benefit plans is recognized 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, 2015 . 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, 2015 . These supplementary 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 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 and rates of return 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 sheets.

Revenue Recognition

We derive revenue from the sale of integrated hardware and software, professional services, maintenance contracts, other services, and third party service contracts. Professional services generally include implementation, installation, and training services. Other services generally include revenue generated through our royalty and extended warranty contracts. We recognize revenue when persuasive evidence of an arrangement exists, delivery of the product or service has occurred, the fee is fixed or determinable and collectability is reasonably assured. We enter into multiple element arrangements as well as standalone sales of product, professional services, and other services.

We recognize revenue from standalone product sales upon transfer of title, which is typically upon shipment, provided all other revenue recognition criteria have been met. Revenue generated from standalone professional services and extended warranty contracts is recognized as services are completed, provided all other revenue recognition criteria have been met. In some instances professional service contracts include a customer acceptance provision, in which case revenue is deferred until we have evidence of customer acceptance. We recognize revenue from usage based royalty contracts upon confirmation from the customer of shipment of the system produced pursuant to the royalty agreement.

We recognize revenue from multiple element arrangements in accordance with ASC 605-25, Multiple Element Arrangements. We evaluate multiple element arrangements to determine if separate units of accounting exist, and if so, we allocate revenue to each element based upon the relative selling price of each element. ASC 605-25 establishes a hierarchy for determining the amount to allocate to each separate deliverable in an arrangement. We determine selling price using vendor specific objective evidence (“VSOE”), if it exists; or, if VSOE does not exist, third party evidence (“TPE”) of fair value if applicable; otherwise, we use the best estimate of selling price (“BESP”). The objective of BESP is to determine the price at which the Company would transact if the element was sold on a standalone basis. Management’s determination of BESP involves several factors including budgeted profit margins, and cost to complete services.

We recognize revenue from third party service contracts as either gross sales or net sales in accordance ASC 605-45, Principal Agent Considerations, which requires us to determine if the Company is acting as a principal party to the transaction or simply acting as an agent or broker. Under ASC 605-45, the assumption of the risks and rewards under the arrangement are considered indicators of principal parties to the arrangement. We record revenue as gross when it is a principal party to the arrangement and net of cost when we are acting as a broker or agent. Under gross sales recognition, the entire selling price is recorded in revenue 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 revenue resulting in net sales equal to the gross profit on the transaction.

The following policies are applicable to our major categories of segment revenue transactions:

HPP Segment Revenue

HPP segment revenue is derived from the sale of integrated hardware and software, maintenance, and other services through the Multi-computer and Myricom product lines. Multi-computer product revenue is generally recognized when product is shipped, provided that all revenue recognition criteria are met. Service revenue consists principally of other services which comprise of warranty and royalty revenue. Revenue generated from extended warranty contracts is recognized as services are completed, provided all other revenue recognition criteria have been met. We recognize revenue from usage based royalty contracts upon confirmation from the customer of shipment of the system produced pursuant to the royalty agreement.

Myricom revenue is derived from the sale of products, which are comprised of both hardware and embedded software which is essential to the products functionality, and post contract maintenance and support. Revenue on multiple element arrangements is recognized in accordance with ASC 605-25. We evaluate multiple element arrangements to determine if separate units of accounting exist, and if so, we allocate revenue to each element based upon the relative selling price of each element. We determine selling price using BESP. Management’s determination of BESP is based on several factors, including, but not limited to, internal costs and gross margin objectives. Accordingly revenue for post contract maintenance and support is recognized over the implied maintenance period of three years, and revenue for product sales is recognized upon delivery

assuming all other revenue recognition criteria have been met.

TS Segment Revenue

TS Segment revenue is derived from the sale of hardware, software, professional services, and third party service contracts. TS product revenue is generally recognized when product is shipped, provided that all revenue recognition criteria are met. Service revenue consists of professional services which generally include implementation, installation, and training services. Revenue generated from standalone professional services is recognized as services are completed, provided all other revenue recognition criteria has been met. Our 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 we have evidence of customer acceptance.

Revenue derived from the sale of products, which are comprised of both hardware and software, and professional services is recognized in accordance with ASC 605-25. We evaluate multiple element arrangements to determine if separate units of accounting exist, and if so, we allocate revenue to each element based upon the relative selling price of each element. We determine selling price using BESP. Management's determination of BESP is based on several factors, including, but not limited to, internal costs and gross margin objectives. Accordingly revenue for professional services is recognized as services are completed, and revenue for product sales is recognized upon delivery assuming all other revenue recognition criteria have been met.

We recognize revenue from certain third party service contracts, which are evaluated to determine whether such service revenue should be recorded as gross sales or net sales in accordance ASC 605-45. We evaluate all third party service contracts to determine whether we act as a principal in the transaction and assume the risks and rewards 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 net sales recognition method for the third party service contracts that we sell when we are not the primary obligor on the contract. We use the gross sales recognition for the third party service contracts that we sell when we act as principal and are the primary obligor.

Product Warranty Accrual

Our product sales generally include a 90 -day to three -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

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.

We are required to present earnings per share, or 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 per share computations for the Company's reported net income attributable to common stockholders are as follows:

	For the year ended	
	September 30, 2015	September 30, 2014
	<i>(Amounts in thousands except per share data)</i>	
Net income (loss)	\$ (210)	\$ 1,334
Less: Net income attributable to nonvested common stock	—	50
Net income (loss) attributable to common stockholders	\$ (210)	\$ 1,284
Weighted average total shares outstanding - basic	3,548	3,582
Less: weighted average non-vested shares outstanding	—	134
Weighted average number of common shares outstanding - basic	3,548	3,448
Potential common shares from non-vested stock awards and the assumed exercise of stock options	—	51
Weighted average common shares outstanding - diluted	3,548	3,499
Net income (loss) per share - basic	\$ (0.06)	\$ 0.37
Net income (loss) per share - diluted	\$ (0.06)	\$ 0.37

All anti-dilutive securities, including stock options, are excluded from the diluted income per share computation. For the year ended September 30, 2015, 26 thousand stock options were excluded from the diluted income per share calculation because their inclusion would have been anti-dilutive. For the fiscal year ended September 30, 2014, approximately 51 thousand stock 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 restricted 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 restricted 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 Statements of Operations.

Because stock-based compensation expense recognized in the Consolidated Statements of Operations for the fiscal years ended September 30, 2015 and 2014 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, 2015 and 2014 consisted of stock-based compensation expense related to options and nonvested restricted stock granted pursuant to the Company's stock incentive and employee stock purchase plans of approximately \$0.4 million and \$0.4 million, respectively.

Concentrations of Credit Risk

Cash and cash equivalents are maintained with several financial institutions in the US, Germany and in the UK. 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

On September 8, 2015, the Company executed a lease for 13,515 square feet of space at 175 Cabot Street in Lowell Massachusetts. The future annual rent payment obligations under the terms of this five year and three month lease are \$943,000, which commence as of the December 1, 2015 effective date of the lease.

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. The Company has evaluated subsequent events through the date of this filing.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update, or ASU, No. 2014 -09, *Revenue from Contracts with Customers*, which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This ASU clarifies the principles for recognizing revenue by, among other things, removing inconsistencies in revenue requirements, improving comparability of revenue recognition practices across entities and industries and providing improved disclosure requirements. In July 2015, the FASB approved a one year deferral of the effective date for this ASU to interim and annual reporting periods beginning after December 15, 2017; however, early adoption at the original effective date is still permitted. We are currently evaluating the impact that the adoption of this ASU will have on our consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which excludes investments measured at net asset value, as a practical expedient for fair value, from the fair value hierarchy. This ASU is effective for interim and annual reporting periods beginning after December 15, 2015, and requires retrospective application, with early adoption permitted. The implementation of this ASU is not expected to have a material impact to the disclosures in our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-12, *Plan Accounting: Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefits Plans (Topic 965)*, which requires fully benefit-responsive investment contracts to be measured at contract value. Those Topics also require an adjustment to reconcile contract value to fair value, when these measures differ, on the face of the plan financial statements. Fair value is measured using the requirements in Topic 820, Fair Value Measurement. This ASU is effective for fiscal years beginning after December 15, 2015, and requires retrospective application, with early adoption permitted. The implementation of this ASU is not expected to have a material impact to the disclosures in our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Inventory (Topic 330) Simplifying the Measurement of Inventory*, which requires entities to measure inventory at the lower of cost and net realizable value, except for inventory measured using last-in, first-out (LIFO) or the retail inventory method. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for fiscal beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017 and requires prospective application, with early adoption permitted as of the beginning of an interim or annual reporting period.

The Company has not yet assessed the potential impact of implementing this ASU on the disclosures in our consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes*, which require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Topic apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Topic. The amendments in this Topic are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The implementation of this guidance is not expected to have a material impact to the disclosures in our consolidated financial statements.

2. *Acquired Business*

On November 4, 2013 the Company acquired substantially all of the assets of Myricom, Inc. Myricom has been integrated into the High Performance Products and Solutions business segment. Prior to our acquisition, Myricom was a manufacturer of high performance interconnect computing devices and software. The Company acquired Myricom in order to obtain (i) Myricom's interconnect technology, which is critical to our latest MultiComputer products and (ii) a strong base of new customers in commercial growth markets. The Company also retained key Myricom technical personnel. Myricom was a key supplier to CSPI's MultiComputer Division. Its interconnect technology is an important component of the latest generation MultiComputer products that we currently supply to our customers.

Although Myricom was an established business prior to our acquisition, it had previously sold off a significant portion of its business and was faced with the likelihood of having to shut down operations if it could not find a buyer to purchase its remaining assets. This was because the revenue that Myricom was able to generate from these remaining assets was not sufficient to support its cost structure so as to enable Myricom to operate at a profit. These factors contributed to a purchase price that resulted in the recognition of a bargain purchase gain. The Company paid total cash consideration of approximately \$0.5 million to acquire substantially all of the assets of Myricom and incurred approximately \$0.1 million for the assumption of certain other liabilities. The purchase of Myricom resulted in the recognition of a bargain purchase gain of approximately \$0.5 million. The bargain purchase gain is presented as a component of operating income, net of the federal and state tax effect.

The Myricom inventory was valued at fair value in connection with the acquisition and for the the years ended, September 30, 2015, and 2014, and approximately \$0.1 million and \$0.2 million, respectively, of the stepped up basis in inventory was amortized through cost of sales.

The purchase price was allocated as follows:

	<u>(Amounts in Thousands)</u>
Inventory	\$ 1,030
Property & equipment	17
Intangibles	<u>260</u>
Gross assets acquired	1,307
Product warranty liability assumed	<u>(93)</u>
Net assets acquired	1,214
Less: asset purchase price	<u>500</u>
Bargain purchase gain before tax	714
Deferred tax on bargain purchase gain	<u>(252)</u>
Bargain purchase gain, net of tax effect	<u><u>\$ 462</u></u>

The results of operations of Myricom for the for the year ended September 30, 2015 and the eleven month period beginning on November 4, 2013 and ending on September 30, 2014 are included in the Company's consolidated statements of operations for the years ended Septembr 30, 2015 and 2014, respectively.

3. Inventories

Inventories consist of the following:

	September 30, 2015	September 30, 2014
	(Amounts in thousands)	
Raw materials	\$ 1,788	\$ 2,377
Work-in-process	387	229
Finished goods	3,574	3,840
Total	<u>\$ 5,749</u>	<u>\$ 6,446</u>

Finished goods includes inventory that has been shipped, but for which all revenue recognition criteria has not been met, of approximately \$0.1 million and \$0.4 million as of September 30, 2015 and September 30, 2014, respectively.

Total inventory balances in the table above are shown net of reserves for obsolescence of approximately \$4.1 million and \$4.7 million as of September 30, 2015 and September 30, 2014, respectively.

4. 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 as of September 30, 2013	\$ (2,156)	\$ (3,709)	\$ (5,865)
Change in Period	(339)	(2,164)	(2,503)
Tax effect of change in period	—	444	444
Balance as of September 30, 2014	\$ (2,495)	\$ (5,429)	\$ (7,924)
Change in Period	(330)	(68)	(398)
Tax effect of change in period	—	(63)	(63)
Balance as of September 30, 2015	<u>\$ (2,825)</u>	<u>\$ (5,560)</u>	<u>\$ (8,385)</u>

The changes in the minimum pension liability are net of amortization of net gain of \$140 thousand in 2015 and net gain of \$58 thousand in 2014 included in net periodic pension cost.

5. *Income Taxes*

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

	For the Years Ended September 30,	
	2015	2014
<i>(Amounts in thousands)</i>		
Income (loss) before income tax:		
U.S.	\$ 576	\$ 1,460
Foreign	(560)	(5)
	<u>\$ 16</u>	<u>\$ 1,455</u>
Income tax expense (benefit):		
Current:		
Federal	\$ (4)	\$ (135)
State	24	14
Foreign	152	37
	<u>172</u>	<u>(84)</u>
Deferred:		
Federal	(36)	159
State	67	16
Foreign	23	30
	<u>54</u>	<u>205</u>
	<u>\$ 226</u>	<u>\$ 121</u>

As of September 30, 2015, management assessed the positive and negative evidence in the U.S operations, and estimated we will have sufficient future taxable income to utilize the existing deferred tax assets. Significant objective positive evidence included the cumulative profits that we realized over the most recent years. This evidence enhances our ability to consider other subjective evidence such as our projections for future growth. Other factors we considered are the likelihood for continued royalty income in future years, and our expectation that the TS segment will continue to be profitable in future years. On the basis of this evaluation, as of September 30, 2015, we have concluded that our U.S. deferred tax asset is more likely than not to be realized. It should be noted however, that the amount of the deferred tax asset realized could be adjusted in future years, if estimates of taxable income during the carryforward periods are reduced, or if objective negative evidence in the form of cumulative losses is present.

The recording and ultimate reversal of valuation allowances for our deferred tax asset requires significant judgment associated with past and projected performance. In assessing the realizability of deferred tax assets, we consider our taxable future earnings and the expected timing of the reversal of temporary differences. We recorded a valuation allowance which reduced the gross deferred tax asset to an amount that we believed was more likely than not to be realized because of the cumulative losses incurred in the U.K. in recent years represented sufficient negative evidence to record a valuation allowance against certain deferred tax assets.

We continue to maintain a full valuation allowance against our U.K. 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 assets may change.

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

	For the Years Ended September 30,			
	2015		2014	
	(Dollar amounts in thousands)			
Computed “expected” tax expense	\$ 5	34.0 %	\$ 338	34.0 %
Increases (reductions) in taxes resulting from:				
State income taxes, net of federal tax benefit	79	492.8 %	25	2.5 %
Foreign operations	359	2,243.8 %	99	10.0 %
Permanent differences	14	89.3 %	61	6.1 %
Stock-based compensation	1	4.3 %	(1)	(0.1)%
Foreign net operating loss	—	— %	(16)	(1.6)%
Uncertain tax liability adjustment	(54)	(337.5)%	(336)	(33.9)%
Research & development credit	(91)	(568.8)%	(27)	(2.7)%
Other items	(87)	(543.8)%	(22)	(2.2)%
Income tax expense	<u>\$ 226</u>	<u>1,414.1 %</u>	<u>\$ 121</u>	<u>12.1 %</u>

For the years ended September 30, 2015 and 2014 , temporary differences, which give rise to deferred tax assets (liabilities), are as follows:

	September 30, 2015		September 30, 2014	
	(Amounts in thousands)			
Deferred tax assets:				
Pension	\$	2,023	\$	2,084
Intangibles		409		517
Other reserves and accruals		618		547
Inventory reserves and other		724		632
State credits, net of federal benefit		253		33
Federal and state net operating loss carryforwards		71		18
Foreign net operating loss carryforwards		2,093		1,940
Foreign tax credits		7		7
Depreciation and amortization		(126)		(22)
Gross deferred tax assets		<u>6,072</u>		<u>5,756</u>
Less: valuation allowance		(3,048)		(2,634)
Realizable deferred tax asset		<u>3,024</u>		<u>3,122</u>
Gross deferred tax liabilities		—		—
Net deferred tax assets	<u>\$</u>	<u>3,024</u>	<u>\$</u>	<u>3,122</u>

The deferred tax valuation allowance increased by approximately \$414 thousand , as shown above. 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 2015 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, 2015 and 2014 , the Company had U.S. net operating loss carryforwards for state tax purposes of approximately \$0.4 million and \$0.5 million , respectively, which are available to offset future taxable income through 2031.

As of September 30, 2015, the Company had state research and development tax credit carry-forwards in the amount of \$327 that expire in years 2024 through 2028. The Company also had other state tax credit carry-forwards of \$58k available to reduce future state tax expense of which \$56k has unlimited carryover status and \$2k will expire in 2017.

As of September 30, 2015 the Company concluded that a net increase of \$215k of the valuation allowance was appropriate. As part of the Company's analysis, the Company evaluated, among other factors, its recent history of generating taxable income in state jurisdictions and its near-term forecasts of future taxable income. The net increase in the Company's valuation allowance of \$215k is to reserve for state tax credit carry-forwards that the Company believes will expire unused.

As of September 30, 2015, the Company had U.K. net operating loss carryforwards of approximately \$10.5 million that have an indefinite life with no expiration.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$2.5 million and \$3.2 million at September 30, 2015 and 2014, 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 September 30, 2015, the total amount of uncertain tax liabilities was \$0.1 million, 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:

	For the Year Ended September 30, 2015	For the Year Ended September 30, 2014
	(Amounts in thousands)	
Balance, beginning of year	\$ 249	\$ 589
Increases in tax positions in the current year	—	—
Settlements	(72)	(362)
Lapse in statute of limitations	—	—
Accrued penalties and interest	18	22
Balance, end of period	<u>\$ 195</u>	<u>\$ 249</u>

We file income tax returns in the U.S. federal jurisdictions and various state and foreign jurisdictions. The Company has reviewed the tax positions taken on returns filed domestically and in its foreign jurisdictions for all open years, generally fiscal 2012 through 2015, and believes that tax adjustments in any audited year will not be material, except for the uncertain tax position described above.

6. Property, Equipment and Improvements, Net

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

	September 30, 2015	September 30, 2014
	(Amounts in thousands)	
Leasehold improvements	\$ 440	\$ 399
Equipment	8,170	7,933
Automobiles	74	66
	<u>8,684</u>	<u>8,398</u>
Less accumulated depreciation and amortization	(7,120)	(6,926)
Property, equipment and improvements, net	<u>\$ 1,564</u>	<u>\$ 1,472</u>

The Company uses the straight-line method over the estimated useful lives of the assets to record depreciation expense. Depreciation expense was \$516 thousand and \$510 thousand for the years ended September 30, 2015 and 2014 , respectively.

7. Acquired Intangible Assets

As of September 30, 2015 and 2014, intangible assets are as follows:

	September 30, 2015			September 30, 2014				
	Weighted Average Remaining Amortization Period	Gross	Accumulated Amortization	Net	Weighted Average Remaining Amortization Period	Gross	Accumulated Amortization	Net
(Amounts in thousands)								
Customer list	4 years	\$ 910	\$ 591	\$ 319	5 years	\$ 910	\$ 500	\$ 410
Non-Compete agreements	0 years	93	93	—	0 years	93	93	—
Developed Technology	1 year	30	\$ 19	\$ 11	2 years	30	9	21
Trade Name	3 years	140	\$ 54	\$ 86	4 years	140	26	114
Total		<u>\$ 1,173</u>	<u>\$ 757</u>	<u>\$ 416</u>		<u>\$ 1,173</u>	<u>\$ 628</u>	<u>\$ 545</u>

Amortization expense on these intangible assets was \$130 thousand and \$124 thousand for fiscal 2015 and 2014, 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)
2016	129
2017	120
2018	119
2019	11
2020	9
Thereafter	28
Total	<u>\$ 416</u>

8. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	September 30,	
	2015	2014
(Amounts in thousands)		
Accounts payable	\$ 10,559	\$ 6,748
Commissions	248	118
Compensation and fringe benefits	1,426	1,594
Professional fees and shareholders' reporting costs	499	485
Taxes, other than income	25	217
Warranty	125	213
Other	894	376
Total	<u>\$ 13,776</u>	<u>\$ 9,751</u>

9. Stock Based Incentive Compensation

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 1997 Plan has expired, no further awards will be issued under this plan. 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. The 2003 plan expired in 2014. Because the 2003 Plan has expired, no further awards will be issued under this 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, 2015, there were 27,673 shares available to be granted under the 2007 Plan. In 2015, the Company adopted the 2015 Stock Incentive Plan (the "2015 Plan") and authorized 300,000 shares of common stock to be reserved for issuance pursuant to the 2015 Plan. As of September 30, 2015, there were 300,000 shares available to be granted under the 2015 Plan. 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 327,673 as of September 30, 2015.

Awards 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 included cliff vesting after six months from the date of grant and expire three years from the date of grant. In fiscal years 2013 through 2015, the Company granted certain officers including its Chief Executive Officer and non-employee directors, and key employees 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. The vesting period for the key employees' awards is four years.

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, 2015 and 2014 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 \$375 thousand and \$361 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:

	Year ended	
	September 30, 2015	September 30, 2014
	(Amounts in thousands)	
Cost of sales	\$ 2	\$ —
Engineering and development	22	25
Selling, general and administrative	351	336
Total	<u>\$ 375</u>	<u>\$ 361</u>

For the year ended September 30, 2015, the Company granted 11,000 nonvested shares to certain key employees, 30,500 nonvested shares to certain officers including 12,000 shares granted to the Chief Executive Officer and 16,000 nonvested shares to its non-employee directors. For the year ended September 30, 2014, the Company granted 54,250 nonvested shares to certain key employees, 37,500 nonvested shares to certain officers including 22,500 to its Chief Executive Officer and 16,000 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 used 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. The expected dividend yield is equal to the dividend per share declared, divided by the closing share price on the date the options were granted. All equity compensation awards granted for the years ended September 30, 2015 and September 30, 2014 were non-vested stock awards.

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 are 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, 2015 and 2014 were based on actual forfeitures.

No cash was used to settle equity instruments granted under share-based payment arrangements in any of the years in the two-year period ended September 30, 2015.

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, 2013	107,676	\$ 7.56	—	—
Granted	—	—	—	—
Expired	(12,500)	\$ 7.48	—	—
Forfeited	—	—	—	—
Exercised	(3,050)	5.02	—	—
Outstanding at September 30, 2014	92,126	\$ 7.66	—	—
Granted	—	—	—	—
Expired	(35,125)	\$ 9.72	—	—
Forfeited	—	—	—	—
Exercised	(1,875)	5.26	—	—
Outstanding at September 30, 2015	55,126	\$ 6.43	1.89 Years	\$ 32
Exercisable at September 30, 2015	54,813	\$ 6.45	1.86 Years	\$ 32
Vested and expected to vest at September 30, 2015	55,126	\$ 6.43	1.89 Years	\$ 32

There were no stock options granted in the years ended September 30, 2015 and 2014 . The aggregate intrinsic value of stock options exercised during the years ended September 30, 2015 and 2014 was \$3 thousand and \$9 thousand , respectively.

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, 2013	73,500	\$ 5.21	2.18 years	\$ 520
Activity in 2014:				
Granted	107,750	\$ 7.72	—	—
Vested	(31,375)	\$ 5.64	—	—
Forfeited	(500)	7.67	—	—
Nonvested shares outstanding at September 30, 2014	149,375	\$ 6.92	2.45 Years	\$ 1,191
Activity in 2015:				
Granted	57,500	\$ 5.05	—	—
Vested	(58,296)	\$ 6.82	—	—
Forfeited	(18,122)	7.38	—	—
Nonvested shares outstanding at September 30, 2015	130,457	\$ 6.08	2.12 Years	\$ 714
Vested at September 30, 2015	170,888	\$ 5.11	0.39 Years	\$ 935
Vested and expected to vest at September 30, 2015	301,345	\$ 5.53	1.14 Years	\$ 1,648

As of September 30, 2015 there was \$523 thousand of total unrecognized compensation cost related to nonvested share-based compensation arrangements (including stock option and nonvested stock awards) granted under the company's stock incentive plans. This cost is expected to be expensed over a weighted average period of approximately 2.27 years. The total fair value of shares vested during the years ended September 30, 2015 and 2014 was \$399 thousand and \$180 thousand, respectively.

10. Employee Stock Purchase Plan

In December 2013, the Board of Directors of the Company adopted the 2014 Employee Stock Purchase Plan covering up to 250,000 shares of Common Stock (the "ESPP"), which was ratified by a vote of the Company's shareholders in February 2014. Under the ESPP, the Company's employees may purchase shares of common stock at a price per share that is currently 95% of the lesser of the fair market value as of the beginning or end of semi-annual option periods. Pursuant to the ESPP the company issued 31,163 and 13,507 shares for the two years ended September 30, 2015 and September 30, 2014, respectively. Since inception of the plan, there are 205,330 shares available for future issuance under the ESPP as of September 30, 2015.

11. 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, 2015. 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, 2015. These supplementary 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 policies 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 \$2.0 million and \$1.9 million as of September 30, 2015 and 2014, 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,	
	2015	2014	2015	2014
Discount rate:	4.25%	4.25%	3.10%	3.25%
Expected return on plan assets:			4.20%	4.40%
Rate of compensation increase:			1.00%	1.00%

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,	
	2015	2014	2015	2014
Discount rate:	4.25%	5.00%	3.25%	4.40%
Expected return on plan assets:			4.40%	4.90%
Rate of compensation increase:			1.00%	1.00%

For domestic plans, the discount rate was determined by comparison against the Citigroup Pension Discount Curve and Liability Index for AA rated corporate instruments. 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					
	2015			2014		
	Foreign	U.S.	Total	Foreign	U.S.	Total
(amounts in thousands)						
Pension:						
Service cost	\$ 56	\$ —	\$ 56	\$ 45	\$ —	\$ 45
Interest cost	634	52	686	770	69	839
Expected return on plan assets	(423)	—	(423)	(472)	—	(472)
Amortization of:						
Prior service gains	—	—	—	—	—	—
Amortization of net (gain)/loss	193	(3)	190	93	(9)	84
Net periodic benefit cost	<u>\$ 460</u>	<u>\$ 49</u>	<u>\$ 509</u>	<u>\$ 436</u>	<u>\$ 60</u>	<u>\$ 496</u>
Post Retirement:						
Service cost	\$ —	\$ 34	\$ 34	\$ —	\$ 10	\$ 10
Interest cost	—	44	44	—	43	43
Expected return on plan assets	—	—	—	—	—	—
Amortization of:						
Prior service costs/(gains)	—	—	—	—	—	—
Amortization of net (gain)/loss	—	(50)	(50)	—	(142)	(142)
Net periodic benefit cost	<u>\$ —</u>	<u>\$ 28</u>	<u>\$ 28</u>	<u>\$ —</u>	<u>\$ (89)</u>	<u>\$ (89)</u>
Pension:						
Increase (decrease) in minimum liability included in other comprehensive income (loss)	\$ 163	\$ (6)	\$ 157	\$ 1,868	\$ 20	\$ 1,888
Post Retirement:						
Increase (decrease) in minimum liability included in other comprehensive income (loss)	—	(89)	(89)	—	276	276
Total:						
Increase (decrease) in minimum liability included in comprehensive income (loss)	<u>\$ 163</u>	<u>\$ (95)</u>	<u>\$ 68</u>	<u>\$ 1,868</u>	<u>\$ 296</u>	<u>\$ 2,164</u>

The following table presents an analysis of the changes in 2015 and 2014 of the benefit obligation, the plan assets and the funded status of the plans:

	Years Ended September 30					
	2015			2014		
	Foreign	U.S.	Total	Foreign	U.S.	Total
	(Amounts in thousands)					
Pension:						
Change in projected benefit obligation (“PBO”)						
Balance beginning of year	\$ 18,919	\$ 1,228	\$ 20,147	\$ 16,651	\$ 1,371	\$ 18,022
Service cost	56	—	56	45	—	45
Interest cost	635	52	687	770	69	839
Changes in actuarial assumptions	304	(8)	296	2,336	10	2,346
Foreign exchange impact	(1,534)	—	(1,534)	(389)	—	(389)
Benefits paid	(401)	(250)	(651)	(494)	(222)	(716)
Projected benefit obligation at end of year	<u>\$ 17,979</u>	<u>\$ 1,022</u>	<u>\$ 19,001</u>	<u>\$ 18,919</u>	<u>\$ 1,228</u>	<u>\$ 20,147</u>
Changes in fair value of plan assets:						
Fair value of plan assets at beginning of year	\$ 10,094	\$ —	\$ 10,094	\$ 9,473	\$ —	\$ 9,473
Actual gain (loss) on plan assets	(117)	—	(117)	718	—	718
Company contributions	398	251	649	393	222	615
Foreign exchange impact	(673)	—	(673)	4	—	4
Benefits paid	(401)	(251)	(652)	(494)	(222)	(716)
Fair value of plan assets at end of year	<u>\$ 9,301</u>	<u>\$ —</u>	<u>\$ 9,301</u>	<u>\$ 10,094</u>	<u>\$ —</u>	<u>\$ 10,094</u>
Funded status	<u>\$ (8,678)</u>	<u>\$ (1,022)</u>	<u>\$ (9,700)</u>	<u>\$ (8,825)</u>	<u>\$ (1,228)</u>	<u>\$ (10,053)</u>
Unamortized net loss	—	—	—	—	—	—
Net amount recognized	<u>\$ (8,678)</u>	<u>\$ (1,022)</u>	<u>\$ (9,700)</u>	<u>\$ (8,825)</u>	<u>\$ (1,228)</u>	<u>\$ (10,053)</u>
Post Retirement:						
Change in projected benefit obligation (“PBO”)						
Balance beginning of year	\$ —	\$ 1,045	\$ 1,045	\$ —	\$ 857	\$ 857
Service cost	—	34	34	—	10	10
Interest cost	—	44	44	—	43	43
Changes in actuarial assumptions	—	(138)	(138)	—	135	135
Foreign exchange impact	—	—	—	—	—	—
Benefits paid	—	—	—	—	—	—
Projected benefit obligation at end of year	<u>\$ —</u>	<u>\$ 985</u>	<u>\$ 985</u>	<u>\$ —</u>	<u>\$ 1,045</u>	<u>\$ 1,045</u>
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	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status	<u>\$ —</u>	<u>\$ (985)</u>	<u>\$ (985)</u>	<u>\$ —</u>	<u>\$ (1,045)</u>	<u>\$ (1,045)</u>
Unamortized net loss	—	—	—	—	—	—
Net amount recognized	<u>\$ —</u>	<u>\$ (985)</u>	<u>\$ (985)</u>	<u>\$ —</u>	<u>\$ (1,045)</u>	<u>\$ (1,045)</u>

The amounts recognized in the consolidated balance sheet consist of:

	Years Ended September 30					
	2015			2014		
	Foreign	U.S.	Total	Foreign	U.S.	Total
	(Amounts in thousands)					
Pension:						
Accrued benefit liability	\$ (8,678)	\$ (1,022)	\$ (9,700)	\$ (8,825)	\$ (1,228)	\$ (10,053)
Deferred tax	(490)	24	(466)	(531)	22	(509)
Accumulated other comprehensive income	5,623	11	5,634	5,419	14	5,433
Net amount recognized	<u>\$ (3,545)</u>	<u>\$ (987)</u>	<u>\$ (4,532)</u>	<u>\$ (3,937)</u>	<u>\$ (1,192)</u>	<u>\$ (5,129)</u>
Post Retirement:						
Accrued benefit liability	\$ —	\$ (985)	\$ (985)	\$ —	\$ (1,045)	\$ (1,045)
Deferred tax	—	165	165	—	145	145
Accumulated other comprehensive income	—	(73)	(73)	—	(4)	(4)
Net amount recognized	<u>\$ —</u>	<u>\$ (893)</u>	<u>\$ (893)</u>	<u>\$ —</u>	<u>\$ (904)</u>	<u>\$ (904)</u>
Total pension and post retirement:						
Accrued benefit liability	\$ (8,678)	\$ (2,007)	\$ (10,685)	\$ (8,825)	\$ (2,273)	\$ (11,098)
Deferred tax	(490)	189	(301)	(531)	167	(364)
Accumulated other comprehensive income	5,623	(62)	5,561	5,419	10	5,429
Net amount recognized	<u>\$ (3,545)</u>	<u>\$ (1,880)</u>	<u>\$ (5,425)</u>	<u>\$ (3,937)</u>	<u>\$ (2,096)</u>	<u>\$ (6,033)</u>
Accumulated Benefit Obligation:						
Pension	\$ (17,866)	\$ (1,022)	\$ (18,888)	\$ (18,798)	\$ (1,228)	\$ (20,026)
Post Retirement	—	(985)	(985)	—	(1,045)	(1,045)
Total accumulated benefit obligation	<u>\$ (17,866)</u>	<u>\$ (2,007)</u>	<u>\$ (19,873)</u>	<u>\$ (18,798)</u>	<u>\$ (2,273)</u>	<u>\$ (21,071)</u>

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,	
	2015	2014
	(Amounts in thousands)	
Current accrued benefit liability	\$ 675	\$ 658
Non-current accrued benefit liability	10,009	10,440
Total accrued benefit liability	<u>\$ 10,684</u>	<u>\$ 11,098</u>

As of September 30, 2015 and 2014 the amounts included in accumulated other comprehensive income, consisted of deferred net losses totaling approximately \$5.6 million and \$5.4 million, respectively.

The amount of net deferred gain expected to be recognized as a component of net periodic benefit cost for the year ending September 30, 2015, is approximately \$67 thousand.

Contributions

The Company expects to contribute \$0.7 million to its pension plans for fiscal 2016.

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)
2016	\$ 682
2017	673
2018	642
2019	694
2020	717
Thereafter	4,223

Plan Assets

At September 30, 2015, our pension plan in the U.K. was the only plan with assets, holding investments of approximately \$9.3 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"). 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 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:

Asset Category	Fair Values as of							
	September 30, 2015				September 30, 2014			
	Fair Value Measurements Using Inputs Considered as				Fair Value Measurements Using Inputs Considered as			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	(Thousands)							
Cash on deposit	\$ 324	\$ 324	\$ —	\$ —	\$ 352	\$ 352	\$ —	\$ —
Pooled Funds	8,977	—	8,977	—	9,742	—	9,742	—
Total Plan Assets	\$ 9,301	\$ 324	\$ 8,977	\$ —	\$ 10,094	\$ 352	\$ 9,742	\$ —

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.

The Company uses the Net Asset Value ("NAV") to determine the fair value of the underlying investments which (a) do not have readily determinable fair value; and (b) prepare their financial statements consistent with the measurement principles of an investment company. The Fund is not exchange traded. The Fund is not subject to any redemption notice periods or restrictions and can be redeemed on a daily basis. No gates or holdbacks or dealing suspensions are being applied to the Fund. The Fund is of perpetual duration.

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 \$174 thousand and \$186 thousand for the years ended September 30, 2015 and 2014, respectively.

12. Lines of Credit

As of September 30, 2015 and September 30, 2014, the Company maintained a line of credit notes that allows for borrowings of up to \$1.0 million. Availability under this facilities is reduced by outstanding borrowings thereunder. The interest rates on outstanding borrowings is the London Inter-Bank Offer Rate ("LIBOR") plus 2.5%, with a floor of 4%. Borrowings under the credit agreement 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 is not subject to financial covenants and the Company did not borrow under the line of credit during the fiscal years ending September 30, 2015 and 2014.

As of September 30, 2015 and September 30, 2014, the Company maintained an inventory line of credit that may be used by the the TS in the US to purchase inventory from approved vendors with payment terms which exceed those offered by the vendors. No interest accrues under the inventory line of credit when advances are paid within terms, late payments are subject to an interest charge of Prime plus 5%. The credit agreements contain financial covenants which require the Company to maintain the following division specific financial ratios: (1) a minimum current ratio of 1.2, (2) tangible net worth of \$2.5 million and (3) a maximum ratio of total liabilities to total net worth of less than 5.0 :1. As of September 30, 2015 and September 30, 2014, Company borrowings under the inventory line of credit were \$2.9 million and \$2.1 million, respectively, and the Company was in compliance with all covenants for the inventory line of credit as of September 30, 2015 and 2014.

13. 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)	
2016	\$	868
2017		789
2018		724
2019		653
2020		399
	\$	<u>3,433</u>

Occupancy expenses under the operating leases approximated \$1.3 million in 2015 and \$1.3 million in 2014.

Common Stock Repurchase

From time to time the Company's Board of Directors passes resolutions to authorize the Company to purchase shares of its outstanding common stock. The Company did not repurchase any shares during the years ended September 30, 2015 and 2014. As of September 30, 2015 the Company is authorized to repurchase an additional 201 thousand shares pursuant to such resolutions.

14. Segment Information

The following table presents certain operating segment information.

For the Years Ended September 30,	HPP Segment	TS Segment				Consolidated Total
		Germany	United Kingdom	U.S.	Total	
(Amounts in thousands)						
2015						
Sales:						
Product	\$ 9,894	\$ 7,808	\$ 4,025	\$ 44,720	\$ 56,553	\$ 66,447
Service	4,054	15,043	1,114	2,648	18,805	22,859
Total sales	13,948	22,851	5,139	47,368	75,358	89,306
Profit (loss) from operations	485	549	(817)	9	(259)	226
Assets	16,668	14,557	2,720	13,051	30,328	46,996
Capital expenditures	156	216	3	349	568	724
Depreciation and amortization	247	172	34	193	399	646

2014						
Sales:						
Product	\$ 9,151	\$ 9,273	\$ 2,131	\$ 38,322	\$ 49,726	\$ 58,877
Service	5,384	15,790	1,299	3,269	20,358	25,742
Total sales	14,535	25,063	3,430	41,591	70,084	84,619
Profit (loss) from operations	1,352	466	(187)	52	331	1,683
Assets	16,966	13,499	3,464	12,378	29,341	46,307
Capital expenditures	216	211	90	73	374	590
Depreciation and amortization	225	185	32	192	409	634

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 investment income and interest expense. All intercompany transactions have been eliminated.

The following table details the Company's sales by operating segment for fiscal years September 30, 2015 and 2014. The Company's sales by geographic area based on the location of where the products were shipped or services rendered are as follows:

	2015	Americas	Europe	Asia	Total	% of Total
HPP	\$ 10,774	\$ 1,135	\$ 2,039	\$ 13,948	16%	
TS	47,659	26,713	986	75,358	84%	
Total	\$ 58,433	\$ 27,848	\$ 3,025	\$ 89,306	100%	
% of Total	66%	31%	3%	100%		
2014						
HPP	\$ 10,918	\$ 992	\$ 2,625	\$ 14,535	17%	
TS	42,643	27,403	38	70,084	83%	
Total	\$ 53,561	\$ 28,395	\$ 2,663	\$ 84,619	100%	
% of Total	63%	34%	3%	100%		

Substantially all Americas amounts are United States.

Long-lived assets by geographic location at September 30, 2015 and 2014 were as follows:

	September 30, 2015	September 30, 2014
	(Amounts in thousands)	
North America	\$ 1,494	\$ 1,429
Europe	486	589
Totals	<u>\$ 1,980</u>	<u>\$ 2,018</u>

Deferred tax assets by geographic location at September 30, 2015 and 2014 were as follows:

	September 30, 2015	September 30, 2014
	(Amounts in thousands)	
North America	\$ 2,254	\$ 2,300
Europe	770	822
Totals	<u>\$ 3,024</u>	<u>\$ 3,122</u>

The following table lists customers from which the Company derived revenues in excess of 10% of total revenues for the years ended September 30, 2015 and 2014 .

	For the year ended			
	September 30, 2015		September 30, 2014	
	Amount	% of Revenues	Amount	% of Revenues
	(Amounts in millions)			
Customer A	\$ 17.1	19%	\$ 15.2	18%
Customer B	\$ 14.3	16%	\$ 15.7	19%

15. Fair Value Measures

The Company had no assets or liabilities measured at fair value on a recurring or non-recurring basis as of September 30, 2015 or September 30, 2014 , except for pension plan assets values, which are discussed in Note 11.

16. Dividend

On December 17, 2013, our board of directors declared a cash dividend of \$0.10 per share which was paid on January 7, 2014 to stockholders of record as of December 27, 2013. On February 11, 2014, our board of directors declared a cash dividend of \$0.11 per share which was paid on March 11, 2014 to stockholders of record as of February 27, 2014. On May 14, 2014, our board of directors declared a cash dividend of \$0.11 per share which was paid on June 10, 2014 to stockholders of record as of May 30, 2014. On August 6, 2014, our board of directors declared a cash dividend of \$0.11 per share which was paid on August 29, 2014 to stockholders of record as of August 21, 2014, the record date.

On December 16, 2014, the Company's board of directors declared a cash dividend of \$0.11 per share which was paid on January 8, 2015 to shareholders of record as of December 28, 2014, the record date. On February 11, 2015, the Company's board of directors declared a cash dividend of \$0.11 per share which was paid on March 12, 2015 to shareholders of record as of February 26, 2015, the record date. On May 13, 2015, the Company's board of directors declared a cash dividend of \$0.11 per share which was paid on June 10, 2015 to shareholders of record as of May 29, 2015, the record date. On August 12, 2015, the Company's board of directors declared a cash dividend of \$0.11 per share which was paid on September 11, 2015 to shareholders of record as of August 26, 2015, the record date.

On December 23, 2015, the Company's board of directors declared a cash dividend of \$0.11 per share which will be paid on January 11, 2016 to shareholders of record as of December 31, 2015, the record date.

17. Related Party Transactions

During the normal course of business, the company sold products to a company whose Board of Directors includes two members of CSP Inc.'s Board of Directors. The total sales were \$313,637 and \$161,348 , for the fiscal years ended 2015 and 2014, respectively. The trade receivables were \$12,540 and \$29,260 as of September 30, 2015 and 2014. respectively.

LEASE AGREEMENT BETWEEN
NORTH AMERICAN HOLDINGS AND INVESTMENTS, LLC
AS LANDLORD, AND
MODCOMP, INC.
AS TENANT

DATED MAY 7, 2015

STANDARD OFFICE BUILDING LEASE

THIS LEASE AGREEMENT (hereinafter referred to as the "Lease") is made by and between NORTH AMERICAN HOLDINGS AND INVESTMENTS, LLC, a Florida limited liability company (hereinafter called "Landlord") whose address for the purposes hereof is 401 Fairway Drive, Deerfield Beach, Florida 33441, and MODCOMP, INC., a Delaware company (hereinafter called "Tenant"), whose address for purposes hereof is 1182 East Newport Center Drive, Deerfield Beach, FL 33342, and is dated as of the date on which this Lease has been fully executed.

I. BASIC LEASE TERMS AND DEFINITIONS

Landlord: North American Holdings and Investments, LLC, a Florida limited liability company.

Tenant: Modcomp, Inc., a Delaware company.

Leased Premises: The leased premises (the "Leased Premises"), which contains (a) 9,000 square feet of commercial office space (the "Office Area"), as defined in the Leased Premises section of the Lease, (b) 2,815 square feet of commercial warehouse space (the "Warehouse Area"), as defined in the Warehouse section of the lease, and (c) parking spaces as defined in the Parking section of the Lease, are located at 1182 East Newport Center Drive, Deerfield Beach, Florida 33442 (the "Property"). The Leased Premises and Parking are outlined on the site and floor plans attached to this Lease as Exhibit A.

Term: The "Term" shall be sixty (60) months, commencing on July 1, 2015 (the "Commencement Date") and ending at 5:00 P.M. on the date which is sixty months after the Commencement Date (the "Expiration Date"), subject to adjustment and earlier termination as provided in the Lease.

Option to Renew: Two (2), five (5) year renewal options as set forth herein.

Base Rent: As used herein, the term "Base Rent" for the initial Term and the First Renewal Term, should Tenant exercise its renewal option, shall be the following amounts payable in monthly installments for the following periods of time and based upon the following square feet of Office Area and includes the monthly rental of all sales floor cubicles located within the Leased Premises:

Period (Months) beginning on the Commencement Date	Gross Rentable Area (Square Feet)	Annual Base Rent Per Square Foot	Base Rent For Period	Monthly Base Rent
1 - 12	9,000	\$20.67	\$186,000.00	\$15,500.00
13 - 24	9,000	\$21.19	\$190,650.00	\$15,887.50
25 - 36	9,000	\$21.72	\$195,416.25	\$16,284.69
37 - 48	9,000	\$22.26	\$200,301.66	\$16,691.80
49 - 60	9,000	\$22.82	\$205,309.20	\$17,109.10
61 - 72	9,000	\$23.16	\$208,388.84	\$17,365.74
73 - 84	9,000	\$23.51	\$211,514.67	\$17,626.22
85 - 96	9,000	\$23.86	\$214,687.39	\$17,890.62
97 - 108	9,000	\$24.22	\$217,907.70	\$18,158.98
109 - 120	9,000	\$24.58	\$221,176.32	\$18,431.36

As used herein, the term "Lease Month" shall mean each calendar month during the Term.

Warehouse Rent: As used herein, the term "Warehouse Rent" for the initial Term and the first Renewal Term, should Tenant exercise its renewal option, shall be the

following amounts payable in monthly installments for the following periods of time and based upon the following square feet of Warehouse Area and includes the monthly rental of the entire warehouse area located within the Leased Premises:

Period (Months) beginning on the Commencement Date	Warehouse Area (Square Feet)	Annual Base Rent Per Square Foot	Base Rent For Period	Monthly Warehouse Rent
1 - 12	2,815	\$6.25	\$17,593.75	\$1,466.15
13 - 24	2,815	\$6.41	\$18,033.59	\$1,502.80
25 - 36	2,815	\$6.57	\$18,484.43	\$1,540.37
37 - 48	2,815	\$6.73	\$18,946.54	\$1,578.88
49 - 60	2,815	\$6.90	\$19,420.21	\$1,618.35
61 - 72	2,815	\$7.00	\$19,711.51	\$1,642.63
73 - 84	2,815	\$7.11	\$20,007.18	\$1,667.27
85 - 96	2,815	\$7.22	\$20,307.29	\$1,692.27
97 - 108	2,815	\$7.33	\$20,611.90	\$1,717.66
109 - 120	2,815	\$7.44	\$20,921.08	\$1,743.42

Initial Monthly Rent:

Concurrently with the execution of this Lease, Tenant shall pay Landlord the sum of **Seventeen Thousand Nine Hundred Eighty Four and 12/100 Dollars (\$17,984.12)**, which represents payment of Base Rent plus Warehouse Rent for the first **one (1) full calendar month** of the Lease that Base Rent and Warehouse Rent is due plus State of Florida six percent (6%) sales tax.

Rent Credit

Landlord agrees that it has obtained written consent from the current occupant of the Premises to retain the sum of Twenty-Five Thousand and 00/100 Dollars (\$25,000) from the current occupant's security deposit for the benefit of Tenant under this Lease. Landlord shall retain such amount and apply it to Tenant's Rent obligations, commencing in Month 2 of the Term, and carrying over into Month 3 until the full Twenty-Five Thousand Dollars is credited against Tenant's Rent obligations.

Delivery Date

As used herein, the term "Delivery Date" shall mean May 15, 2015.

Initial Improvements As used herein, the term "**Initial Improvements**" means the improvements to be made to the Leased Premises by Tenant pursuant to Section 4.03 and **Exhibit B** hereto, following the Delivery Date.

Security Deposit:

Concurrently with the execution of this Lease, Tenant shall provide Landlord with a Security Deposit in the total sum of **Sixty-Two Thousand and 00/100 Dollars (\$62,000.00)**.

Rent:

As used herein, the term "**Rent**" shall mean Base Rent, Warehouse Rent, and all other sums that Tenant may owe to Landlord or otherwise be required to pay under the Lease.

Permitted Use:

Administrative Offices and Warehouse and no other uses.

Common Areas

As used herein, the term "**Common Areas**" shall mean all areas and facilities as provided by Landlord from time to time for the use or enjoyment of all tenants in the Property, including, if applicable, driveways, sidewalks, parking, loading and landscaped areas.

Initial Liability

Insurance Amount: \$1,000,000.00

Renewal Options: Provided (i) no Event of Default exists at the time Tenant exercises its option or at the commencement of the renewal term, and there then exists no event that with the giving of notice or the passage of time would constitute an Event of Default, (ii) Tenant is occupying the entire Leased Premises at the time of such election and has not assigned or sublet all or part of the Leased Premises (regardless of whether any such assignment or sublease was made with or without Landlord's consent) and (iii) no Transfer (as defined herein) of Tenant has occurred without Landlord's consent, Tenant may renew this Lease for **two (2) additional period of sixty (60) months** by delivering written notice of the exercise thereof to Landlord not earlier than **two hundred seventy (270) days** nor later than **one hundred eighty (180) days** before the Expiration Date, or the Expiration Date of the First Renewal Term, as the case may be. If Tenant timely notifies Landlord of Tenant's acceptance of its' option to renew, then, on or before the commencement date of the extended Term, Landlord and Tenant shall execute an amendment to this Lease extending the Lease Term on the same terms and conditions provided in this Lease, except as follows:

(a) Base Rent and Warehouse Rent shall be the Rent specified above for months sixty-one through one hundred twenty; for the Second Renewal Term, the Base Rent and Warehouse Rent shall increase by annual cumulative escalations of one and a half percent (1.5%) during each year of the second extension term.

(b) the renewal term shall begin on the day after the initial Expiration Date and thereafter the Expiration Date shall be deemed to be the date that is sixty (60) months after the initial Expiration Date; the second renewal term shall begin on the day after the Expiration Date of the First Renewal Term and thereafter the Expiration Date shall be deemed to be the date that is sixty (60) months after the First Renewal Term Expiration Date

(c) Tenant shall have no further renewal option unless expressly granted by Landlord in writing;

(d) Tenant shall continue to pay Additional Rent to Landlord throughout the renewal term in accordance with the terms of this Lease; and

(b) Landlord shall lease to Tenant the Leased Premises for the Renewal Term(s) in its then-current condition, and Landlord shall not provide to Tenant any allowances (e.g., moving allowance, construction allowance, and the like) or other Tenant inducements.

**Tenant's
Address:**

Prior to Commencement Date:

Following Commencement Date:

Modcomp, Inc.
1500 S Powerline Road
Deerfield Beach, FL 33442

Modcomp, Inc
1182 East Newport Center Drive
Deerfield Beach, Florida 33442

Attention: Victor Dellovo
Telephone: 800-940-1111
Telecopy:
Email:

Attention: Victor Dellovo
Telephone: 800-940-1111
Telecopy:
Email:

Landlord's
Address:

For all Notices:

North American Holdings and
Investments, LLC
401 Fairway Drive, Ste 100
Deerfield Beach, Florida 33441
Attention: Domenick Torrillo
Telephone: 954-425-6051
Telecopy: 954-697-8158
Email: dtorrillo@intlbuild
ings.com

With a copy to:

(Intentionally Left Blank)

Attention:
Telephone:
Telecopy:
Email:

II. LEASED PREMISES:

1. Landlord does hereby lease to Tenant and Tenant leases from Landlord the Leased Premises, together with the right in common with others to use the Common Areas. Tenant accepts the Leased Premises (including all sales floor cubicles), the Property and Common Areas "AS IS", without relying on any representation, covenant or warranty by Landlord other than as expressly set forth in this Lease. Tenant acknowledges that (i) all sales floor cubicles are the property of Landlord and Tenant agrees that it will not alter, remove or otherwise impair the value or quality of such property and (ii) Tenant shall not have the right to use or access the IT Room located on the second floor of the Office Area (the "IT Room"); provided that Tenant the balance of the second floor shall be considered to be part of the Leased Premises except that Landlord shall have the right to access the IT Room. Notwithstanding the foregoing, (i) Landlord acknowledges that Tenant may need to remove a small number of sales floor cubicles in order to efficiently utilize the premises and that Landlord shall reasonable grant Tenant's request to do so; and in such case Landlord shall use reasonable commercial efforts to provide storage facilities for such cubicles, and (ii) Landlord acknowledges that Tenant's communication lines from outside terminate in the IT Room and that Tenant may, from time to time, require access to the IT Room for installation, linkage and/or maintenance of such communication lines; Landlord agrees that it shall provide such access to Tenant within twelve hours of request from Tenant and shall use reasonable efforts to provide access sooner in an emergency situation, such as Tenant's communications being disrupted. Landlord shall arrange for a reasonable method to estimate the electricity charges for the IT Room and shall reimburse Tenant for such charges (as such charges are paid by Tenant.) Landlord and Tenant (a) acknowledge that all square foot measurements are approximate and (b) stipulate and agree to the rentable square footages set forth in Article I above for all purposes with respect to this Lease. Such measurements are final and binding and may not be modified or amended during the Term of this Lease or any renewal Term, even if the measurements of the Leased Premises are reduced or enlarged by any Alteration or Improvement.
2. On the Delivery Date, Landlord shall not be required to perform any improvements whatsoever to the Leased Premises (except for the Landlord's Work set forth on Exhibit B). All work necessary to improve, furnish, fixture, equip, stock, and decorate the Leased Premises for Tenant's Use shall be performed by Tenant, at its sole cost and expense, in accordance with Article 14 below and pursuant to the provisions contain in Exhibit B attached hereto. Tenant represents that it has thoroughly examined the Property (including without limitation the Leased Premises and the Property) and is aware of, and accepts, the existing condition thereof.
3. Landlord and Landlord's agents shall have the right, but not the obligation, to enter the Leased Premises from time to time during all reasonable hours (or at any time and by forcible means in an emergency) to inspect same, to make improvements or repairs to the Leased Premises or the Building, to show the Leased Premises to prospective purchasers, tenants, and lenders, to access the IT Room, or for any other reason, in Landlord's reasonable judgment. Landlord shall have the right to place "For Sale" signs, and during the last twelve (12) months of the Term, "For Rent" signs, on the Leased Premises.

III. TERM:

1. This Lease shall commence on the Commencement Date and end on the Expiration Date (hereinafter referred to as the "Lease Term" or "Term") unless sooner terminated or extended as provided herein. Landlord shall not be liable for any loss or damage to Tenant resulting from any delay in delivering possession due to any Landlord improvement work, the holdover of any existing Tenant or other circumstances outside of Landlord's reasonable control.
2. Taking possession of the Leased Premises on the Commencement Date by Tenant shall be conclusive evidence against Tenant that the Leased Premises were in good and satisfactory condition when possession was taken. This Lease does not grant any right to light or air over or about the Leased Premises or Building.

IV. RENT:

1. Tenant agrees to pay Landlord, without demand, deduction or offset, Base Rent and Warehouse Rent, subject to increases as set forth in Article I, including sales tax, in money of the United States of America, at the **Management Office of the Building located at 401 Fairway Drive Ste 100, Deerfield Beach, Florida 33441** on the first day of each calendar month during the Term commencing on the **first of July, 2015**. If the Term of this Lease commences on any day of a month other than the fifteenth day, Tenant shall pay Landlord Base Rent and Warehouse Rent as provided for herein for such commencement month on a pro rata basis (such proration to be based on the actual number of days in the commencement month) and the Base Rent and Warehouse Rent paid by Tenant, if any, upon execution of this Lease shall apply and be credited to the next full month's Base Rent and Warehouse Rent due hereunder. Base Rent and Warehouse Rent for any partial month of occupancy at the end of the Term of this Lease will be prorated, such proration to be based on the actual number of days in the partial month.
2. In addition to Base Rent and Warehouse Rent, Tenant shall and hereby agrees to pay to Landlord each month a sum equal to any sales tax, tax on rentals, and any other charges, taxes or impositions now in existence or hereafter imposed based upon the privilege of renting the space leased hereunder or upon the amount of rentals collected therefor (the "Impositions"). Nothing herein shall, however, be taken to require Tenant to pay part of any federal or state taxes on income imposed upon Landlord.
3. Rent shall include sixty (60) monthly payments for the amortized portion of the Initial Improvements as a result of Tenant exercising its option to utilize the Initial Improvement Allowance (as defined in Exhibit B). Each monthly installment shall be one sixtieth (1/60) of the Tenant Improvement Allowance, without interest. Each monthly installment shall be due and payable on or before the (1st) first day of each calendar month succeeding the Commencement Date during the term of this Lease.
4. If Tenant's Base Rent, Warehouse Rent or any other Rent is five (5) or more days past its due date, then, on the second and all subsequent occasions, Tenant shall pay an administrative charge of five percent (5%) of the amount past due to Landlord. Any amounts remaining due and unpaid will accrue interest at the maximum legally prevailing rate from the date that the payment becomes due through the date paid. In the event that Tenant's check shall be dishonored by the bank for non-sufficient funds, uncollected funds, or stop payment by Tenant, Tenant shall pay to Landlord, an additional FIFTY DOLLARS AND NO CENTS (\$50.00) or five percent (5%) of the amount of the check, whichever is greater as allowable by law. Tenant shall pay before delinquent all taxes levied or assessed upon, measured by, or arising from: (a) the conduct of Tenant's business; (b) Tenant's leasehold estate; or (c) Tenant's property.

V. EARLY OCCUPANCY.

On the Delivery Date, Tenant and its authorized agents, employees and contractors shall have the right, at all reasonable times, at Tenant's own risk, expense and responsibility, to occupy the Warehouse Area of the Leased Premises for the sole and exclusive purpose of completing the Tenant Alterations (as defined herein), fixturing and installation of equipment or furniture ("**Early Access**"). Tenant shall abide by the terms and conditions of this Lease as if the term of this Lease had already commenced, except that Tenant shall pay a prorated portion of rent of Warehouse Rent if Tenant takes access to Warehouse space prior to the Commencement Date.

VI. INCREASE IN BASE RENT:

See Article I for Base Rent increases.

VII. TIME OF PAYMENT:

Tenant agrees that Tenant will promptly pay said Rents without written notice or demand from Landlord, at the times and place stated above; that Tenant will pay charges for work performed on

order of Tenant, and any other charges that accrue under this Lease; that, if any part of the Rents or above mentioned charges shall remain due and unpaid for fifteen (15) calendar days next after the same shall become due and payable, Landlord shall have the option (in addition to all other rights and remedies available to it by law and in equity) of declaring the balance of the entire Rents for the entire Term of this Lease to be immediately due and payable, and Landlord may then proceed to collect all of the unpaid Rents called for by this Lease by distress or otherwise.

VIII. SECURITY DEPOSIT:

Tenant concurrently with the execution of this Lease, has deposited with Landlord the Security Deposit in the manner as defined in Article I which sum shall be retained by Landlord as security for the payment by Tenant of the Rents and all other payments herein agreed to be paid by Tenant, and for the faithful performance by Tenant of the terms, provisions, covenants and conditions of this Lease. It is agreed that Landlord, at Landlord's option, may at the time of any default by Tenant under any of the terms, provisions, covenants or conditions of this Lease, apply said sum or any part thereof toward the payment of the Rents and all other sums which are due and payable by Tenant under this Lease, but such covenants and Tenant's liability under this Lease shall thereby be discharged only provided that Tenant shall remain liable for any amounts that such sum shall be insufficient to pay; that Landlord may exhaust any and all rights and remedies against Tenant before resorting to said sum, but nothing herein contained shall require or be deemed to require Landlord to do so. Landlord shall not be required to pay Tenant any interest on said Security Deposit. Landlord may co-mingle said Security Deposit with other Tenant's deposits, at the sole option of the Landlord. In the event that the Landlord exercises its option to utilize the Tenant's Security Deposit for amounts due and payable to Landlord, Tenant agrees to replenish said Security Deposit to the original amount required or any amount required that is deemed adequate by Landlord within ten (10) days of Landlord's demand. Upon sale of the Property by Landlord, Landlord shall transfer responsibility for the Security Deposit to the new owner, shall obtain, for the benefit of the Tenant, a written acknowledgement from the new owner that it is holding and is responsible, under the terms of this Lease, for the Security Deposit, and upon Tenant's receipt of such written acknowledgement, Tenant agrees to hold Landlord harmless for any amounts due to Tenant and agrees to look to the new owner for said Security Deposit. After the Expiration Date and surrender of the Premises in accordance with this Lease, or in the event of a termination of the Lease under Sections XXV, Damage or Destructions or XXVI, Eminent Domain, provided no Event of Default exists, Landlord will return to Tenant any remaining balance of the Security Deposit.

IX. USE:

1. Tenant shall occupy and use the Leased Premises only for the Use specified in Article I above. Tenant shall supply Landlord with a current copy of all required occupational or other license(s) prior to occupancy or within seven (7) calendar days thereof. Tenant shall also furnish a copy of each yearly renewal license(s) to the Landlord within seven (7) calendar days of receipt of such license(s). Failure to submit copies to Landlord or failure to obtain such occupational or other license(s) shall, thirty days after notice from Landlord, be considered a breach of this Lease and Tenant shall hereby be in default of this Lease if Tenant does not cure such default within an additional thirty days.
2. Tenant shall not permit any conduct or condition which may endanger, disturb or otherwise interfere (whether through noise, odor, vibration or otherwise) with any other Property occupant's normal operations or with the management of the Property. Tenant shall not use or permit the use of any portion of the Property for outdoor storage or installations outside of the Leased Premises. Tenant may use all Common Areas only for their intended purposes. Landlord shall have exclusive control of all Common Areas at all times. Tenant shall not have the right to access or use the IT Room without the prior written consent of Landlord, which consent may be withheld by Landlord in its sole discretion, except as provided in Section II.1, above.

X. INSURANCE PREMIUMS:

In the event the Landlord's insurance premiums exceed the standard premium rates due solely to the nature of Tenant's operations, then Tenant shall, upon receipt of appropriate invoices from Landlord, reimburse Landlord for such increase in premiums. It is understood and agreed between the parties

hereto that any such increase in premiums shall be considered as Rents due and shall be included in any lien for Rents.

XI. RULES AND REGULATIONS:

Tenant agrees to comply with all reasonable rules and regulations Landlord may adopt from time to time for operation of the Property, Common Areas and parking areas and protection and welfare of Property and parking areas, its Tenants, visitors and occupants. The present rules and regulations, which Tenant hereby agrees to comply with, entitled "Rules and Regulations" are attached hereto and made a part hereof. Any future rules and regulations shall become a part of this Lease, and Tenant hereby agrees to comply with the same upon delivery of a copy thereof to Tenant.

XII. GOVERNMENTAL REQUIREMENTS:

Tenant shall faithfully observe, in the use of the Leased Premises, all municipal and county ordinances and codes and state and federal statutes, human health or environmental laws now in force or which may hereafter be in force pertaining to the Property or the use and occupation of the Property, including the Americans With Disabilities Act of 1990, as amended and supplemented from time to time (the "ADA").

XIII. SERVICES:

Landlord will furnish Tenant with landscaping services, repair of the canvass parking lot cover and replace canvas parking lot cover if the cover is damaged beyond repair by natural causes during the Term at Landlord's sole cost and expense. Such services shall be provided as long as the Tenant is not in default of any of the terms, provisions, covenants and conditions of this Lease, subject to interruption caused by repairs, renewals, improvements, changes to service, alterations, strikes, lockouts, labor controversies, inability to obtain power, accidents, breakdowns, catastrophes, national or local emergencies, acts of God and conditions and causes beyond the control of Landlord, and upon such happening(s), no claim for damages or abatement of Rents for failure(s) to furnish any such services shall be made by the Tenant or allowed by the Landlord.

XIV. TENANT WORK AND ALTERATIONS AND REMOVAL OF IMPROVEMENTS BY TENANT:

1. It is understood and agreed between the parties hereto that any charges against Tenant by Landlord for services or for work done in or on the Leased Premises by order of or for the benefit of the Tenant, other than Landlord's maintenance obligations hereunder, or otherwise accruing under this Lease, shall be considered additional Rents due and shall be included in any lien for Rents.
2. Tenant shall have the right, without Landlord's prior consent, to perform alterations of a purely decorative nature, such as painting or wallpapering in the interior of the Premises ("Cosmetic Alterations"). Except for Cosmetic Alterations, Tenant shall not make any alterations, additions and improvements ("Alterations") to the Leased Premises or the Property without Landlord's prior written consent, which consent shall not be unreasonably withheld, delayed or conditioned. Landlord's consent may be predicated upon, but not limited to, the requirements of this paragraph. Not less than ten (10) days prior to commencing any Alteration, Tenant shall deliver to Landlord the plans, specifications and permits for the Alteration, together with certificates evidencing that Tenant's contractors and subcontractors have adequate insurance coverage naming Landlord and any other associated or affiliated entity as their interests may appear as additional insureds. The failure of Tenant to receive any permits or other approvals pursuant to any applicable ordinances, laws, rules and regulations shall not relieve Tenant from any of its obligations under this Lease. Tenant shall pay Landlord all reasonable costs and expenses in connection with Landlord's review of Tenant's plans and specifications, and of any supervision or inspection of the construction Landlord deems necessary. Tenant shall obtain Landlord's prior written approval of contractors and subcontractors. Tenant shall pay all costs and expenses in connection with any Alterations made by or through Tenant, and Tenant shall make such Alterations with new materials, in a good and workmanlike manner, in accordance with all applicable laws and the plans and specifications delivered to and approved by Landlord. Prior to making such Alterations, Tenant shall procure all permits and assure

Landlord that payment for the same will be made by Tenant. Tenant shall notify, and shall cause its general contractor to notify, all contractors, subcontractors and material men, and Tenant shall require all contractors, subcontractors and materialmen to agree that any mechanics' liens arising out of any Alterations may only be filed against Tenant's leasehold interest in the Leased Premises. Tenant shall notify all of its contractors and materialmen in writing that any liens relating to any Alterations ordered by Tenant shall attach to Tenant's leasehold estate in the Leased Premises and shall not encumber Landlord's interest in the Leased Premises or Property. Upon Landlord's request Tenant shall, prior to commencing any Alteration, provide Landlord reasonable security against liens arising out of such construction. Any Alteration by Tenant shall be the property of Tenant until the expiration or termination of this Lease; at that time without payment by Landlord the Alteration (together with the Tenant's improvements) shall remain on the Property and become the property of Landlord (including the Initial Improvements).

3. Except as otherwise provided in this Lease, all signs, furnishings, and trade fixtures installed in or on the Leased Premises by Tenant and paid for by Tenant shall remain the property of Tenant and shall be removed by Tenant upon the expiration of the term or earlier termination of this Lease. Tenant shall repair any damage caused by such removal and shall restore the Leased Premises to its condition prior to installation, except normal wear and tear. If Tenant shall not have removed all of such property upon the expiration of the term or termination of this Lease, Landlord shall have the right to treat such remaining property as abandoned and keep all or any portion thereof for Landlord's account or dispose of all or any portion of such property at Tenant's expense. All sales floor cubicles are the property of Landlord and shall remain the property of Landlord upon expiration of the term or termination of this Lease. Notwithstanding the foregoing, all floor and wall coverings, sinks, vanities, light fixtures, and the complete electrical, plumbing, air conditioning and heating systems, including ducts, diffusers, grills, controls and all other equipment and parts related to such systems, shall be and remain in the Leased Premises at all times for the benefit of Landlord.
4. Tenant shall not be deemed to be a partner, joint venturer or agent of Landlord; and in no event shall any lien resulting from Tenant's improvements to the Leased Premises encumber Landlord's underlying fee simple estate. Tenant promptly shall pay for any labor, services, materials, supplies or equipment furnished to Tenant in or about the Leased Premises. Tenant shall keep the Leased Premises and the Property free from any liens arising out of any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to Tenant. Tenant shall take all steps permitted by law in order to avoid the imposition of any such lien. Tenant agrees that it shall not enter into any contract for improvements to the Leased Premises unless the following language is including in such contract:

Notwithstanding anything herein contained to the contrary, the contractor acknowledges that Tenant holds only a leasehold interest in the property which is the subject of this contract. Tenant is not the agent or the owner of the property, and no lien resulting from work performed under this contract shall attach to the interest of such owner.

XV. REPAIR OF LEASED PREMISES:

1. Tenant shall maintain the Common Areas in a clean and professional fashion. Tenant shall maintain the Premises and all of the equipment and fixtures contained therein in good order and repair at its own cost and expense, subject to Landlord's obligation with regard to major repairs as stated in Paragraph 3 below. Tenant shall be responsible for all day to day repairs, with a limit of those repairs costing (i) less than \$1,500 per individual repair and (ii) a maximum of Ten Thousand Dollars (\$10,000) on an annual basis. All damage to the building caused by or resulting from Tenant's moving property in or out of the building or the installation of furniture, fixtures or other property, which is due to the negligence of Tenant, its employees, agents, contractors, visitors or licensees shall be repaired promptly by Tenant, at its sole cost and expense, and to the reasonable satisfaction of Landlord.
2. Tenant at its sole cost and expense is responsible for any repair or replacement to the sales floor cubicles, normal wear and tear excepted. Tenant shall, at Tenant's sole cost and expense, procure and maintain a contract, with copies to Landlord, in customary form and substance for and with (a) a contractor specializing and experienced in the inspection, maintenance and

service of the heating, air conditioning and ventilation system servicing the Leased Premises (such inspections and maintenance shall occur no less frequently than quarterly) and (b) a contractor specializing and experienced in the inspection, maintenance and service of the generator serving the Leased Premises (such inspections and maintenance shall occur no less frequently than twice per year).

3. Landlord shall make all structural and other repairs and replacements, in order to keep the Premises in good order and repair, including the exterior of the building and the public portions of the property, except Tenant's maintenance and repair obligations pursuant to Section XV 1 and 2. Landlord shall deliver the Premises to Tenant with the building systems in good working order.
4. Tenant shall not permit any waste, damage or injury to the Leased Premises and Common Areas. Tenant shall further keep the Common Areas and Leased Premises clean, attractive and free of rubbish, rubble, debris, insects, rodents and other pests. Tenant shall keep sewers and drains leading from the Premises open and clear and shall use the same only for designated purposes. Tenant shall further keep the sidewalks and Common Areas adjacent to the Leased Premises clean and free of all debris.
5. Tenant shall arrange and pay for all utilities, janitorial services, trash and waste removal, window washing, light bulb replacement and all other services necessary to maintain the appearance, cleanliness and safety of the Common Areas and Leased Premises in a good condition.
1. It is further agreed that this Lease is made by the Landlord and accepted by the Tenant with the distinct understanding and agreement that the Landlord shall have the right and privilege to make and build additions to the Property of which the Leased Premises are a part, and make such alterations and repairs to said Building and/or Property as it may deem wise and advisable without any liability to the Tenant therefore. In addition, Landlord may, but is not required to, paint the exterior of the Building from time to time.

XVI. INDEMNIFICATION:

Tenant further agrees that Tenant will pay all liens of contractors, subcontractors, mechanics, laborers, materialmen, and other items of like character, and will indemnify, defend and hold Landlord and its agents harmless against any and all claims, actions, damages, liability, expenses, costs and charges, including bond premiums for release of liens and attorney's fees and costs reasonably incurred in and about the defense of any suit in discharging the said Leased Premises or any part thereof from any liens, judgments, or encumbrances caused or suffered by Tenant or to the extent caused by or based on any act or omission of Tenant or its agents, whether prior to, during or after the Term. In the event any such lien shall be made or filed, Tenant shall bond against or discharge the same within ten (10) days after the same has been made or filed regardless of the validity of such lien or claim. It is understood and agreed between the parties hereto that the expenses, costs and charges above referred to shall be considered as Rents due and shall be included in any lien for Rents.

XVII. PARKING:

There will be no additional charge for any parking spaces on the Property. Tenant shall have the right, at Tenant's sole risk and responsibility, to use the parking spaces at the Property. Tenant shall comply with all parking regulations promulgated by Landlord from time to time for the orderly use of the vehicle parking areas. All vehicles entering or parking in the parking areas shall do so at owner's sole risk and Landlord assumes no responsibility for any damage, destruction, vandalism or theft. Any vehicle which violates the parking regulations may be cited, towed at the expense of the owner, temporarily or permanently excluded from the parking areas, or subject to other lawful consequence.

XVIII. ESTOPPEL STATEMENT:

Tenant agrees that from time to time, upon not less than seven (7) business days prior written request by Landlord, Tenant will deliver to Landlord a statement in writing certifying (a) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that the Lease as modified is in full force and effect and stating the modifications); (b) the dates to which the Rents and other

charges have been paid; and (c) that Landlord is not in default under any provisions of this Lease, or if in default, the nature thereof in detail.

If Tenant fails to deliver such statement within seven (7) business days after Landlord's written request therefor, then Landlord may provide a Landlord's estoppel certificate which provides the following, and which shall be conclusive upon Tenant (provided a copy of such Landlord's estoppel certificate accompanies such notice): certifying (a) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that the Lease as modified is in full force and effect and stating the modifications); (b) the dates to which the Rents and other charges have been paid; and (c) that Landlord is not in default under any provisions of this Lease, or if in default, the nature thereof in detail. Any person or entity purchasing, acquiring an interest in or extending financing with respect to the Property shall be entitled to rely upon any certificate given in accordance with this Article XVIII.

XIX. SUBORDINATION:

If the Property or Leased Premises are at any time subject to a mortgage or deed of trust, and Tenant has received written notice from mortgagee of same, then in any instance in which Tenant gives notice to Landlord alleging default by Landlord hereunder, Tenant will also simultaneously give a copy of such notice to the Landlord's mortgagee and the Landlord's mortgagee shall have the right (but not the obligation) to cure or remedy such default during the period that is permitted to Landlord hereunder, plus an additional period of thirty (30) days, and Tenant will accept such curative or remedial action (if any) taken by Landlord's mortgagee with the same effect as if such action had been taken by Landlord.

This Lease shall, at Landlord's option, which option may be exercised at any time during the Lease Term, be subject and subordinate to any mortgage and/or land lease now or hereafter encumbering the Property or Building. This provision shall be self-operative without the execution of any further instruments. Notwithstanding the foregoing, however, Tenant hereby agrees to execute any reasonable and accurate instrument(s) which Landlord may deem desirable to evidence the subordination of this Lease to any and all such mortgages. Failure to execute such instruments as requested by Landlord shall constitute a default under this Lease.

XX. ATTORNMEN:

In the event the interests of Landlord under this Lease shall be transferred voluntarily or by reason of foreclosure or other proceedings for enforcement of any first mortgage of the Leased Premises, Tenant shall be bound to such transferee (herein sometimes called the "Purchaser") for the balance of the Term hereof remaining, and any extensions or renewals thereof which may be effective in accordance with the terms and provisions hereof, with the same force and effect as if the Purchaser were the Landlord under this Lease, and Tenant does hereby agree to attorn to the Purchaser, including the mortgagee under any such mortgage if it be the Purchaser, as its Landlord, said attornment to be effective and self-operative without the execution of any further instruments upon the Purchaser succeeding to the interest of the Landlord under this Lease. The respective rights and obligations of Tenant and the Purchaser upon such attornment, to the extent of the then remaining balance of the Term of this Lease and any such extensions and renewals, shall be and are the same as those set forth herein. In the event of such transfer of Landlord's interests, upon successor's written acknowledgement and approval (which may be in the instrument by which such successor acquires the Landlord's interests) Landlord shall be released and relieved from all liability and responsibility thereafter accruing to Tenant under this Lease or otherwise and Landlord's successor by acceptance of Rents from Tenant hereunder shall become liable and responsible to Tenant in respect to all obligations of the Landlord under this Lease, except with regard to the Security Deposit, which shall be governed by the terms of Section VIII.

XXI. ASSIGNMENT:

1. Tenant shall not assign, sublet, transfer, mortgage, pledge, or otherwise encumber or dispose of (collectively, "Transfer") this Lease or underlet the Leased Premises or any part thereof or permit the Leased Premises to be occupied by other persons without the prior written consent of Landlord. Any change in control of Tenant, whether directly or indirectly, shall be deemed a Transfer; provided that a change in control of Tenant's parent corporation shall not be deemed to be a Transfer. In the event that Tenant Transfers this Lease Premises or any part thereof or permit the Leased Premises to be occupied by other persons, without the express prior written consent of the Landlord, it will be deemed a breach of this Lease by Tenant and Landlord shall

have all remedies available to it, including, but not limited to, accelerating payment of all Rents due and all future Rents due and payable under the Lease. If this Lease is Transferred, or if the Leased Premises or any part thereof be underlet or occupied by anybody other than Tenant, the Landlord may, after default by the Tenant, collect or accept Rents from the assignee, under-Tenant, or occupant and apply the net amount collected or accepted to the Rents herein reserved, but no such collection or acceptance shall be deemed a waiver of this covenant or the acceptance of the assignee, under-Tenant, or occupant as Tenant, nor shall it be construed as or implied to be a release of the Tenant from the further observance and performance by the Tenant of the terms, provisions, covenants and conditions herein contained.

2. No Transfer shall be valid or binding without said prior written consent of Landlord, which may not be unreasonable withheld, delayed or conditioned by Landlord's, and then only upon the conditions that (a) the proposed transferee shall agree in writing to be bound by each and all of the provisions and covenants of this Lease and the Rules and Regulations; (b) Tenant shall not be released from and shall remain fully liable pursuant to the terms and conditions of this Lease; and (c) such Transfer shall not alter the primary liability of Tenant for the payment of Base Rent, Warehouse Rent and other sums due to Landlord hereunder or for the performance of any other obligations to be performed by Tenant under this Lease. Tenant agrees to reimburse Landlord for reasonable administrative fees, attorneys' fees, and real estate broker fees, not to exceed Five Thousand dollars (\$5,000), in connection with the processing and documentation of any Transfer for which Landlord's consent is requested.
3. Any assignment or transfer, except as aforesaid, shall be deemed a breach of this Lease and shall not be valid or binding. The approval of one Transfer shall not validate a subsequent Transfer, and the restrictions of this paragraph shall apply to each successive Transfer hereunder, and shall be severally binding upon each and every sublessee, assignee, transferee, and other successor in interest.
4. Landlord may, at its option, (i) in the case of the proposed Transfer of Tenant's entire leasehold interest, terminate this Lease in its entirety, or (ii) in the case of the proposed Transfer of a portion of the Leased Premises, terminate this Lease as to that portion of the Leased Premises which Tenant has proposed to Transfer, in the event Landlord elects to terminate this Lease pursuant to clause (ii) of this paragraph, Tenant's obligations to Base Rent and Additional Rent shall be reduced in the same proportion that the Net Rentable Area of the portion of the Leased Premises taken by the proposed assignee or sub-Tenant bears to the total Net Rentable Area of the Leased Premises. If this Lease is not so terminated or amended, Tenant shall pay to Landlord, immediately upon receipt, fifty percent of the excess of (i) all compensation received by Tenant for the Transfer over (ii) the Rent allocable to the Leased Premises transferred.

XXII. SUCCESSORS AND ASSIGNS:

All terms, provisions, covenants and conditions to be observed and performed by Tenant shall be applicable to and binding upon Tenant's respective heirs, administration, executors, successors and assigns, subject, however, to the restrictions as to assignment or subletting by Tenant as provided herein. All expressed covenants of this Lease shall be deemed to be covenants running with the land.

XXIII. HOLD HARMLESS OF LANDLORD:

1. In consideration of said Leased Premises being leased to Tenant for the above Rents, Tenant agrees: (1) that Tenant, at all times, will indemnify, defend and keep Landlord harmless from all losses, damages, liabilities and expenses, which may arise or be claimed against Landlord and be in favor of any persons, firms or corporations, consequent upon or arising from the use or occupancy of said Common Areas and Leased Premises by Tenant, or consequent upon or arising from any acts, omissions, neglect or fault of Tenant, Tenant's agents, servants, employees, licensees, visitors, customers, assignees, sub lessees, patrons or invitees, or consequent upon or arising from Tenant's failure to comply with any laws, statutes, ordinances, codes or regulations as herein provided; (2) that Landlord shall not be liable to Tenant for any damages, losses or injuries to the persons or property of Tenant which may be caused by the acts, neglect, omissions or faults of any persons, firms or corporations, except that such injury, loss or damage results from gross negligence or intentional misconduct of Landlord, his agents or employees; (3) and that Tenant will indemnify, defend and keep harmless Landlord from all

damages, liabilities, losses, injuries, or expenses which may arise or be claimed against Landlord and be in favor of any person, firms or corporations, for any injuries or damages to the person or property of any persons, firms or corporations, where said injuries or damages arose about or upon said Common Areas or Leased Premises, as a result of the negligence, willful misconduct or breach of this Lease by Tenant, his agents, employees, servants, licensees, visitors, customers, assignees, sub lessees, patrons, and invitees. All personal property placed or moved into the Leased Premises of the Property shall be at the risk of Tenant or the owner thereof, and Landlord shall not be liable to Tenant for any damage to said personal property.

2. In the event Landlord shall be made a party to any litigation commenced against Tenant, then Tenant shall indemnify, protect and hold Landlord harmless and shall pay all reasonable costs, expenses, reasonable attorney's fees and any other amounts incurred or paid by Landlord in connection with such litigation and any appeal thereof. In the event that Tenant shall obtain a judgment against Landlord, Tenant agrees to look solely to the Landlord's interest in the Property associated with the leasing of said Building for the recovery of any judgment and that Tenant agrees to not hold Landlord, its representatives, agents, partners, directors, shareholders and other officers personally liable for any judgment against Landlord.
3. Tenant shall indemnify, defend, and hold harmless Landlord and its officers, directors, and shareholders from all fines, suits, procedures, claims, and actions of every kind and all costs, associated with such claims (including attorney's fees, costs of suit and court costs and consultant's fees) arising out of or in any way connected with any deposit, spill, discharge or other release of hazardous substances that occurs during the Term at or from the Leased Premises, or which arises at any time, from Tenant's use or occupancy of the Leased Premises, or from Tenant's failure to provide all information, make all submissions, and take all actions required by all authorities under federal, state, or local laws and ordinances and regulations and all other environmental laws. Tenant's obligations and liabilities under this section shall survive the expiration or termination of this Lease.
4. Tenant shall maintain at all times during the Term of this Lease an insurance policy or policies in an amount or amounts sufficient in Landlord's opinion including the Initial Liability Insurance Amount, to indemnify Landlord or pay Landlord's damages, if any, resulting from any matters set forth hereinbefore in this Article XXIII.
5. In any instance of indemnity under this Section XXIII, the party seeking indemnification shall give prompt notice of such claim to the indemnifying party, the indemnifying party shall have sole control over the defense of such action, utilizing counsel of its own choosing and the indemnified party shall reasonably cooperate and provide information to the indemnifying party to assist in such defense, at the indemnifying party's expense.

XXIV. ATTORNEYS FEES:

If either party defaults in the performance of any of the terms, provisions, covenants and conditions of this Lease and by reason thereof the other party employs the services of an attorney to enforce performance of the covenants, or to perform any service based upon defaults, then in any of said events the prevailing party shall be entitled to reasonable attorneys' fees and all expenses and costs incurred by the prevailing party pertaining thereto (including costs and fees relating to any appeal) and in enforcement of any remedy.

XXV. DAMAGE OR DESTRUCTION:

1. In the event the Leased Premises shall be destroyed or so damaged or injured by fire or other casualty, during the Term of this Lease, whereby the same shall be rendered untenable, then Landlord shall have the right, but not the obligation, to render such Leased Premises Tenatable by repairs within one hundred eighty (180) days from the date of damage, destruction, or injury, or ninety (90) days from the date of receipt of insurance proceeds by the Landlord, whichever is earlier.
2. Landlord agrees that, within ninety (90) days following damage or destruction, it shall notify Tenant with respect to whether or not Landlord intends to restore the Leased Premises. If said

Leased Premises are not rendered Tenantable within the aforesaid one hundred eighty (180) or ninety (90) days as the case may be, it shall be the option of Landlord or Tenant to cancel this Lease within ten (10) days from the expiration of the aforesaid one hundred eighty (180) days or ninety (90) days as the case may be, and in the event of such cancellation the Rents shall be paid only to the date of such fire or casualty. Notwithstanding the provisions of this paragraph, if it is determined within ninety (90) days from the date of destruction, damage, or injury, that the Building has sustained more than fifty percent (50%) damage, Landlord and Tenant each shall have the option of canceling this Lease within ten (10) days from the expiration of the aforesaid ninety (90) days. Said cancellation shall be sent to Tenant or Landlord in writing and sent via certified mail, return receipt requested. Notwithstanding the foregoing, should damage, destruction or injury occur by reason of negligence or willful misconduct by Tenant or Tenant's agents, employees, invitees, servants, licensees, visitors, customers and/or patrons, Landlord shall have the right, but not the obligation, to render the Leased Premises Tenantable within three hundred sixty (360) days from the date of damage, destruction, or injury, or receipt of insurance proceeds by Landlord, whichever is later, and no abatement of Rents shall occur.

3. Notwithstanding the foregoing, should damage or destruction occur during the last twelve (12) months of the Lease Term, either Landlord or Tenant shall have the option to terminate this Lease, effective on the date of damage or destruction. Notwithstanding the foregoing, should the damage or destruction occur by reason of negligence of the Tenant, its agents, invitees, servants, employees, visitors, licensees, customers and/or patrons, Tenant shall not have such option to terminate.

XXVI. EMINENT DOMAIN:

If there shall be taken during the Term of this Lease any part of the Leased Premises, parking areas, Property or Building, other than a part not interfering with maintenance, operation or the intended use of the Leased Premises, Landlord and Tenant may each elect to terminate this Lease or to continue same in effect. If the parties elect to continue the Lease, the Rents shall be reduced in proportion to the area of the Leased Premises so taken and Landlord shall repair any damage to the Leased Premises, parking areas, Property or Building resulting from such taking. If any part of the Leased Premises is taken by condemnation or Eminent Domain which renders the Leased Premises unsuitable for its intended use, the Tenant may elect to terminate this Lease. If all of the Leased Premises is taken by condemnation or Eminent Domain, this Lease shall terminate on the date of the taking. All sums awarded (or agreed upon between Landlord and the condemning authority) for the taking of the interest of Landlord and/or Tenant, whether as damages or as compensation, and whether for partial or total condemnation, will be the property of Landlord. If this Lease should be terminated under any provisions of this paragraph, Rents shall be payable up to the date that possession is taken by the authority, and Landlord will refund to Tenant any prepaid unaccrued Rents, plus the full Security Deposit, less any sum or amount then owing by Tenant to Landlord.

XXVII. ABANDONMENT:

If during the Term of this Lease, Tenant shall abandon, vacate or remove from the Leased Premises the major portion of the goods, wares, equipment or furnishings usually kept in or upon said Leased Premises, or shall cease doing business in said Leased Premises, or shall suffer the Rents to be in arrears, Landlord may, at its option, cancel this Lease in the manner stated in Article XXVIII hereof, or Landlord may enter said Leased Premises as the agent of Tenant by force or otherwise, without being liable in any way therefore and relet the Leased Premises with or without any furniture that may be therein, as the agent of Tenant, at such price and upon such terms and for such duration of time as Landlord may determine, and receive the Rents therefore, applying the same to the payment of the Rents due by these presents, and if the full Rents herein provided shall not be realized by Landlord over and above the expenses to Landlord of such reletting, Tenant shall pay any deficiency.

XXVIII. DEFAULT AND LANDLORD'S REMEDIES UPON DEFAULT

1. Tenant shall be in default of this Lease if:
 - a. Tenant shall at any time be in default in the payment of Rent or other sums of money required to be paid by Tenant, or in the performance of any of the covenants, terms, conditions, provisions, rules and regulations of this Lease, and Tenant shall fail to

remedy such default within ten (10) days after Landlord has given Tenant written notice, in the event the default is as to payment of Rent or other sums of money, or within thirty (30) days after Landlord has given Tenant written notice, if the default relates to matters other than the payment of rent and other sums of money;

- b. Tenant or any guarantor of this Lease enters into or permits any Transfer in violation of this Lease,
 - c. Tenant shall vacate the Leased Premises or fail to continuously occupy and conduct Tenant's business in the Lease Premises, or
 - d. Tenant or any guarantor of this Lease or any assignee or sub lessee of the Leased Premises shall file or have filed against it a petition for adjudication as a bankrupt, reorganization, an arrangement, or for any other debtor or capital structure relief under any existing or future Bankruptcy Code as same may be amended, supplemented or replaced, or make an assignment for the benefit of creditors, or a receiver of any property of Tenant be appointed in any action, suit or proceeding by or against Tenant or if interest of Tenant in the Leased Premises or in any assets or property of Tenant shall be offered for sale or sold under execution or other legal process.
2. In the event of default, Landlord, in addition to any other damages set forth in this Lease or permitted at law or in equity, may terminate this Lease, or without terminating this Lease, terminate Tenant's right of possession, and in either event Landlord may thereafter re-enter the Leased Premises by breaking open locked doors if necessary or otherwise and dispossess the Tenant, and Tenant hereby agrees to be liable for and to pay to Landlord (i) all rent and other charges and sums due under this Lease at the time of termination of this Lease or termination of Tenant's right of possession, as the case may be, and (ii) damages equal to the total remaining unpaid Base Rent, Warehouse Rent and Additional Rents for the Term of this Lease which shall become due and payable immediately, which liability shall survive the termination of this Lease, the re-entry into the Leased Premises by Landlord, and the commencement of any action to secure possession of the Leased Premises. Landlord may at its option, make alterations and repairs in order to relet the Leased Premises and relet all or any parts of the Leased Premises on behalf of Tenant. Tenant agrees to pay Landlord on demand any deficiency (taking into account costs incurred by Landlord) that may arise by reason of reletting the Leased Premises. In the event of reletting without termination of this Lease, Landlord may at any time thereafter elect to terminate this Lease for such previous breach.
- (a) Landlord, without any obligation to do so, may elect to cure the default on behalf of Tenant, in which event Tenant shall reimburse Landlord upon demand for any sums paid or costs incurred by Landlord (together with an administrative fee of 15% thereof) in curing the default, plus interest at a rate equal to the prime rate, as stated in the Wall Street Journal, plus two percentage points, from the respective dates of Landlord's incurring such costs, which sums and costs together with interest shall be deemed additional Rent.
 - (b) Landlord's damages in the event of Tenant's default under this Lease shall include, in addition to any other damages set forth in this Lease or permitted at law or in equity, all of Landlord's expenses incurred with respect to such default including, without limitation, reasonable attorneys' fees, commissions, rental concessions to new Tenants, and the cost of any repairs of the Leased Premises.
 - (c) If this Lease is terminated by Landlord pursuant to this section or any other section of this Lease giving Landlord such right Tenant covenants (except where this Lease is terminated following eminent domain proceedings or as a result of casualty or like event) that (i) the Leased Premises shall then be in the condition required by all applicable provisions of this Lease, and (ii) Tenant shall perform any covenant contained in this Lease to comply with the condition required by all applicable provisions of this Lease. Landlord shall be entitled to recover and Tenant shall pay forthwith, without notice or other action by Landlord, the then cost of performing such obligation(s).
 - (d) If this Lease is terminated under this Section XXVIII, Landlord may immediately, or at any time thereafter, re-enter or repossess the Leased Premises and remove all persons and property

therefrom without being liable for trespass, damages or prosecution.

(e) No surrender of the Leased Premises shall be affected by Landlord's acceptance of the keys of the Leased Premises, or by any other means whatsoever, unless the same is evidenced by Landlord's written agreement to accept surrender of the Leased Premises.

(f) In the event of a default by Tenant beyond the applicable notice and cure period of any of the terms, provisions, covenants, conditions, rules and regulations of this Lease, Landlord shall have the right to injunction and the right to invoke any remedy permitted to Landlord in law or in equity.

(g) All remedies available to Landlord under this Lease are declared to be cumulative and concurrent and may be exercised at one time or at separate times. Efforts by Landlord to mitigate the damages caused by Tenant's default shall not constitute a waiver of Landlord's right to recover damages hereunder. No termination of this Lease nor any taking or recovering of possession of the Leased Premises pursuant to this Lease shall deprive Landlord of any of its remedies or actions against Tenant for all damages resulting from Tenant's default. No payment by Tenant or receipt or acceptance by Landlord of a lesser amount than the total amount due Landlord under this Lease shall be deemed to be other than on account, nor shall any endorsement or statement on any check or payment be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of Rent due, or Landlord's right to pursue any other available remedy.

XXIX COVENANT OF QUIET ENJOYMENT

Landlord covenants that upon Tenant's paying the Rent and observing and performing all the terms, covenants and provisions of this Lease on Tenant's part to be observed and performed, Tenant may peaceably and quietly enjoy the Premises, subject nevertheless to the terms and conditions of this Lease. This covenant shall bind and be enforceable against Landlord, subject to the terms hereof, during the Term of this Lease. Any successor or assignee of Landlord shall be deemed to have accepted and ratified this covenant.

XXX WAIVER OF DEFAULT:

Failure of Landlord to declare any default immediately upon occurrence thereof, or delay in taking any action in connection therewith, shall not waive such default, but Landlord shall have the right to declare any such default at any time and take such action as might be lawful or authorized hereunder, in law and/or in equity. No waiver by Landlord of a default by Tenant shall be implied, and no express waiver by Landlord shall affect any default other than the default specified in any such waiver, which shall be in writing and signed by the Landlord and then only for the time and extension therein stated.

No waiver of any term, provision, condition or covenant of this Lease by either party shall be deemed to imply or constitute a further waiver by such party of any other terms, provisions, conditions or covenants of this Lease. In addition to any rights and remedies specifically granted Landlord herein, Landlord shall be entitled to all rights and remedies available at law and in equity in the event that Tenant shall fail to perform any of the terms, provisions, covenants or conditions of this Lease on Tenant's part to be performed or fails to pay Base Rent, Warehouse Rent and Additional Rents or any other sums due Landlord hereunder when due.

XXXI RIGHT OF ENTRY:

Landlord, or any of its agents, shall have the right to enter the Leased Premises during all reasonable hours to examine the same or to make such repairs, additions or alterations as may be deemed necessary for safety, comfort, or preservation thereof or to said Building, or in the event of an emergency, at any hour, or to exhibit said Leased Premises at any time within one hundred eighty (180) days before the expiration of this Lease or in the case of an emergency. Said right of entry shall likewise exist for the purpose of removing placards, signs, fixtures, alterations, or additions which do not conform to this Lease.

XXXII NOTICE:

Any notice provided for in this Lease shall be given by written instrument sent by United States certified or registered mail, return receipt requested, or with a nationally recognized overnight carrier (such as FedEx) with delivery receipt, each with postage and/or delivery charges prepaid, to Landlord at Landlord's address and to Tenant at Tenant's address, or at such address as specified in Article I and as may be amended from time to time, in writing, delivered to the other party. All notices shall be deemed to have been given when received or rejected (in the case of certified or registered mail, return receipt requested). Any notice may be given on behalf of any party by its counsel.

XXXIII UTILITIES:

Tenant shall promptly pay all utilities and services that are separately metered or contracted for, by, or on behalf of Tenant, including but not limited to, charges for electricity, water, gas, alarm, pest control/eradication, garbage and waste, janitorial, HVAC maintenance and minor repair, generator maintenance and diesel fuel, and toxic waste and chemical disposal if such diesel fuel, toxic waste or chemicals were brought on the Premises by or on behalf of Tenant. Landlord shall not be responsible or liable for any interruption in such services, nor shall such interruption affect the continuation or validity of this Lease.

XXXIV LANDLORD CONTROLLED AREAS:

All automobile parking areas, driveways, entrances and exits thereto, Common Areas and other facilities furnished by Landlord, including all parking areas, truck way or ways, loading areas, pedestrian walkways and ramps, landscaped areas, outside lighting, drainage, dumpsters, and other areas and improvements provided by Landlord for the general use, in common, of Tenant, its officers, agents, employees, servants, invitees, licensees, visitors, patrons and customers, shall be at all times subject to the exclusive control, and management of Landlord, and Landlord shall have the right from time to time to establish, modify, and enforce rules and regulations with respect to all facilities and areas and improvements; to police same, from time to time to change the area, level and location and arrangement of parking areas and other facilities hereinabove referred to, to restrict parking by and enforce parking by Tenant, its officers, agents, invitees, employees, servants, licensees, visitors, patrons and customers; to close all or any portion of said areas or facilities to such extent as may in the opinion of Landlord's counsel be legally sufficient to prevent a dedication thereof or accrual of any rights to any person or the public therein, to close temporarily all or any portion of the public areas, Common Areas and other facilities, to discourage non-Tenant parking, and to do and perform such other acts in and to said areas and improvements as, in the reasonable judgment of Landlord, the Landlord shall determine to be advisable with a view to the improvement of the convenience and use thereof by Tenants, their officers, agents, employees, servants, invitees, visitors, patrons, licensees and customers. Landlord will operate the Common Areas and other facilities referred to in such reasonable manner as Landlord shall determine from time to time. Without limiting the scope of such discretion, Landlord shall have the full right and authority to designate a manager of the parking areas and/or Common Areas and other facilities who shall have full authority to make and enforce all rules and regulations pertaining to and necessary for the proper operation and maintenance of the parking areas and/or Common Areas and other facilities. Reference in this paragraph to parking areas and/or facilities shall in no way be construed as giving Tenant hereunder any rights and/or privileges in connection with such parking areas and/or facilities unless such rights and/or privileges are expressly set forth in Paragraph 17 hereof.

XXIX. CONDITIONS OF LEASED PREMISES UPON TERMINATION OF LEASE AND HOLDING OVER:

Tenant agrees to surrender to Landlord, at the end of the Term of this Lease and/or upon any cancellation of this Lease, said Leased Premises in as good condition as said Leased Premises were at the beginning of the Term of this Lease, ordinary wear and tear, except for damage caused by fire or other casualty not caused by Tenant's negligence or willful misconduct. Tenant agrees that in the event Tenant does not surrender said Leased Premises to Landlord at the end of the Term of this Lease, then Tenant will pay to Landlord double the amount of the current Rents for each month or portion thereof that Tenant holds over plus all damages that Landlord may suffer on account of Tenant's failure to so surrender to Landlord possession of said Leased Premises, and will indemnify, defend and save Landlord harmless from and against all claims made by any succeeding Tenant of said Leased

Premises against Landlord on account of delay of Landlord in delivering possession of said Leased Premises to said succeeding Tenant so far as such delay is occasioned by failure of Tenant to so surrender said Leased Premises in accordance herewith or otherwise. In addition, Tenant agrees that Landlord shall have the right to physically enter the Premises and dispossess the Tenant, and Tenant shall be responsible for all physical damage suffered to the Premises by Landlord exercising such right.

No receipt of money by Landlord from Tenant after termination of this Lease or the service of any notice of commencement of any suit or final judgment for possession shall reinstate, continue or extend the Term of this Lease or affect any such notice, demand, suit or judgment.

No act or thing done by the Landlord or its agents during the Term hereby granted shall be deemed an acceptance of a surrender of the Leased Premises, and no agreement to accept a surrender of the Leased Premises shall be valid unless it be made in writing and subscribed by a duly authorized officer or agent of Landlord.

XXX. OCCUPANCY TAX:

Tenant shall be responsible for and shall pay before delinquency all municipal, county or state taxes assessed during the Term of this Lease against any occupancy interest or personal property of any kind, owned by or placed in, upon or about the Leased Premises by Tenant.

XXXI. SIGNS:

Tenant, at its sole cost and expense, shall have the right to install sign(s) on the exterior of the Building, subject to Landlord's prior consent, which shall not be unreasonably withheld, delayed or conditioned, the ground monument sign and Leased Premises subject to the Deerfield Beach municipal sign code, Newport Center Owner's Association, Inc. rules and regulations. Specifically, but without limitation, Landlord consents to Tenant placing a three (3) foot square lighted sign of Tenant's name on the rounded wall of the building Premises, facing East Newport Center Drive, subject to all applicable laws, regulations and codes. Tenant shall, at its sole cost and expense, remove such sign upon the Expiration of this Lease and shall restore and repair the affected Premises to their original condition.

XXXII. CROSS DEFAULT:

If the term of any lease, other than this Lease, made by Tenant for any other space in the Property, shall be terminated or terminable after the making of this Lease because of any default by Tenant under such other lease, such default shall ipso facto constitute a default hereunder and empower Landlord's sole option to terminate this Lease as herein provided in the event of default.

XXXIII. INVALIDITY OF PROVISION:

If any term, provision, covenant or condition of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease or the application of such term, provision, covenant or conditions to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby and each term, provision, covenant or condition of this Lease shall be valid and be enforceable to the fullest extent permitted by law. This Lease shall be construed in accordance with the laws of the State of Florida.

XXXIV. TIME OF ESSENCE:

It is understood and agreed between the parties hereto that time is of the essence of all the terms, provisions, covenants and conditions of this Lease.

XXXV. MISCELLANEOUS:

The terms Landlord and Tenant as herein contained shall include singular and/or plural, masculine, feminine and/or neuter, heirs, successors, executors, administrators, personal representatives and/or assigns wherever the context so requires or admits. The terms, provisions, covenants and conditions of this Lease are expressed in the total language of this Lease and the paragraph headings are solely for the convenience of the reader and are not intended to be all-inclusive. Any formally executed addendum to or modification of this Lease shall be expressly deemed incorporated by reference herein

unless a contrary intention is clearly stated therein.

XXXVI. EFFECTIVE DATE:

Submission of this instrument for examination does not constitute an offer, right of first refusal, reservation of or option for the Leased Premises or any other space or premises in, on or about the Property. This instrument becomes effective as a Lease upon execution and delivery by both Landlord and Tenant.

XXXVII. ENTIRE AGREEMENT:

This Lease contains the entire agreement between the parties hereto and all previous negotiations leading thereto, and it may be modified only by an agreement in writing signed by Landlord and Tenant. No surrender of the Leased Premises, or of the remainder of the terms of this Lease, shall be valid unless accepted by Landlord in writing. Tenant acknowledges and agrees that Tenant has not relied upon any statement, representation, prior written or contemporaneous oral promises, agreements or warranties except such as are expressed herein.

XXXVIII. BROKERAGE:

Each party represents and warrants that it has dealt with no broker, agent or other person in connection with this transaction and that no broker, agent or other person brought about this transaction, and each party agrees to indemnify, defend and hold the other party harmless from and against any claims by any other broker, agent or other person claiming a commission or other form of compensation by virtue of having dealt with such party with regard to this leasing transaction. The provisions of this paragraph shall survive the termination of this Lease.

XXXIX. FORCE MAJEURE:

Each party shall not be required to perform any term, condition, or covenant in this Lease so long as such performance is delayed or prevented by force majeure, which shall mean acts of God, labor disputes (whether lawful or not) materials or labor shortages, restrictions by any governmental authority, civil riots, floods and any other cause not reasonably within the control of such party and which by the exercise of due diligence such party is unable, wholly or in part, to prevent or overcome. Lack of money shall not be deemed force majeure. Notwithstanding the provisions of this section, the Tenant is not relieved from the duty to pay Base Rent and Additional Rents due under the Lease.

XL. TENANT INSURANCE REQUIRED:

The Tenant, at its sole expense shall be required to obtain and have in full force and effect, Leased Premises liability insurance in the amount of One Million Dollars (\$1,000,000.00) general aggregate, including plate glass insurance, for the Leased Premises from an insurance carrier providing insurance coverage to have Best's rating of AX or better. Tenant shall list the Landlord as an additional insured on said policy. Tenant shall furnish Landlord a Certificate of Insurance prior to occupancy and upon demand of the Landlord at any time during the Term of the Lease. Tenant, at its sole expense, shall also be required to carry business interruption insurance with respect to the Leased Premises. Upon demand from Landlord, Tenant shall be required to furnish proof of said insurance to Landlord. Notwithstanding the provisions of this paragraph, if Tenant fails to obtain, maintain, and pay for insurance as provided in this section, Landlord may, at its option, have these policies issued and pay the premiums on the same. The amount of these premiums shall become due from Tenant as Rents on the first of the month following the payments by the Landlord. These remedies shall be cumulative and not mutually exclusive.

XLI. ENVIRONMENTAL PROHIBITIONS:

1. For purposes of this Lease, "Hazardous Materials" means any explosives, radioactive materials, hazardous wastes, or hazardous substances, including without limitation substances defined as "hazardous substances" in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended 42 U.S.C. 9601-9657; the Hazardous Materials Transportation Act of 1975, 49 U.S.C. 1801-1812; the Resource Conservation and Recovery Act of 1976, 42 U.S.C. 6901-6987; or any other federal, state or local statute, law, ordinance,

code, rule, regulation, order, or decree regulating, relating to, or imposing liability or standards of conduct concerning hazardous materials, waste, including infectious waste, or substances now or at anytime hereafter in effect (collectively, "Hazardous Materials Laws"). Landlord and Tenant do not intend this paragraph to apply to materials that may be deemed "hazardous" but utilized by all commercial entities on a regular basis for a lawful and appropriate purpose, i.e. cleaning agents.

2. Tenant shall not cause or permit to occur: (a) Any violations of any federal, state, or local law, ordinance, or regulation now or later enacted, related to environmental conditions on, under, or about the Leased Premises, or arising from Tenant's use or occupancy of the Leased Premises, including, but not limited to, soil and ground water conditions; or (b) The use, generation, release, manufacture, refining, production, processing, storage, or disposal of any hazardous substance.

XLII. ENVIRONMENTAL COMPLIANCE:

1. All operations and activity at the Leased Premises shall be conducted by Tenant in compliance with all Environmental Statutes.
2. Tenant shall, at Tenant's expense, comply with all laws, regulations and ordinances regulating the use, generation, storage, transportation, or disposal of hazardous substances relating to the Leased Premises.
3. Tenant shall, at Tenant's expense, make all submissions to, provide all information required by, and comply with all requirements of all governmental authorities under all federal, state and/or local laws or ordinances or regulations now or later enacted, relating to hazardous materials.
4. If any authority or any third party demands that a clean-up plan be prepared and that a clean-up be undertaken because of any deposit, spill, discharge, or other release of hazardous substances that occurs during the Term of the Lease, at or from the Leased Premises, or which arises at any time from Tenant's use or occupancy of the Leased Premises, then Tenant shall, at Tenant's expense, prepare and submit the required plans and all related bonds and other financial assurances; and Tenant shall carry out all work required by such clean-up plans.
5. Tenant shall promptly provide all information regarding the use, generation, storage, transportation or disposal of hazardous substances that is requested by Landlord. If Tenant fails to fulfill any duty imposed under this section within reasonable time, Landlord may do so and in such case, Tenant shall cooperate with Landlord in order to prepare all documents deemed necessary or appropriate to determine the applicability of the laws to the Leased Premises and Tenant's use of them, and for compliance with the laws and ordinances, and Tenant shall execute all documents promptly upon Landlord's request. No such action by Landlord and no attempt made by Landlord to mitigate damages under any law shall constitute a waiver of any of Tenant's obligations under this section.
6. Tenant will be solely responsible for and will defend, indemnify and hold Landlord, its agents, and employees harmless from and against all claims, costs and liabilities, including attorney's fees and costs, arising out of or in connection with Tenant's breach of its obligations in this Section. Tenant will be solely responsible for and will defend, indemnify, and hold Landlord, its agents, and employees harmless from and against any and all claims, costs, and liabilities, including attorney's fees and costs, arising out of or in connection with the removal, cleanup, and restoration work and materials necessary to return the Leased Premises and Property to their condition existing prior to the appearance of Tenant's Hazardous Materials. Tenant's obligations under this Article will survive the expiration or other termination of this Lease.
7. Tenant's obligations under this section shall survive the expiration or termination of this Lease.

XLIII. COMPLIANCE WITH PUBLIC ACCOMMODATION LAWS:

Tenant agrees to indemnify and hold Landlord harmless from and against any and all claims, liabilities, fines, penalties, losses and expenses (including reasonable attorney's fees) arising in connection with any failure by Tenant to cause the Leased Premises to comply with any applicable laws, regulations

and building codes governing non-discrimination in public accommodations and commercial facilities ("Public Accommodation Laws"), including, but not limited to, the requirements of the ADA and all rules and regulations made on the basis of authority granted by the ADA.

XLIV. NO PARTNERSHIP:

Landlord is not and shall not become by this Lease or by any rights granted or reserved herein a partner, agent or joint venturer of or with Tenant in the conduct of Tenant's business or otherwise.

XLV. RADON DISCLOSURE:

Radon is a naturally occurring radioactive gas that, when it has accumulated in a building in sufficient quantities, may present health risks to persons who are exposed to it over time. Levels of radon that exceed federal and state guidelines have been found in buildings in Florida. Additional information about radon and radon testing may be obtained from your county public health unit.

XLVI. RECORDATION OF LEASE:

Tenant shall not record this Lease or any part hereof. Upon recordation, same shall be, at the sole option of the Landlord, a default and breach of the Lease and Landlord may exercise any options and remedies available to it as provided in the Lease and/or it may seek remedies available to it in law and/or equity.

XLVII. REPRESENTATION:

The parties represent that each has freely and voluntarily entered into this Lease and agree to be fully bound hereby.

XLVIII. TRIAL BY JURY:

IT IS MUTUALLY AGREED BY AND BETWEEN LANDLORD AND TENANT THAT THE RESPECTIVE PARTIES HERETO SHALL AND THEY HEREBY DO WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM BROUGHT BY EITHER OF THE PARTIES HERETO AGAINST THE OTHER ON ANY MATTERS ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, AND TENANT'S USE OR OCCUPANCY OF THE LEASED PREMISES. TENANT FURTHER AGREES THAT IT SHALL NOT INTERPOSE ANY COUNTERCLAIM OR COUNTERCLAIMS IN A SUMMARY PROCEEDING HEREUNDER.

(This Area Intentionally Left Blank. Signatures On Following Page.)

IN WITNESS WHEREOF, the parties hereto, have signed, sealed and delivered this Lease in duplicate at Broward County, Florida, on the date and year first written above.


LANDLORD: North American Holdings and Investments, LLC, a Florida limited liability company

WITNESSES:



Anthony J. Ruck


Domenick Terrillo

TITLE:


PRESIDENT

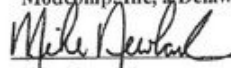
WITNESSES:


CEO


Jeff Hoza

TENANT: Modcomp, Inc, a Delaware company

BY:

 5/7/15

TITLE:

Controller

**EXHIBIT A
LEASED PREMISES**

[INSERT FLOORPLAN .PDF]

RULES AND REGULATIONS

The following Rules and Regulations, hereby accepted by Tenant, are prescribed by Landlord to enable Landlord to provide, maintain, and operate, to the best of Landlord's ability, orderly, clean and desirable Leased Premises, Building and Property for the Tenant at as economical a cost as reasonably possible, and to regulate conduct in and use of said Leased Premises, Building and Property in such manner as to minimize interference by others in the proper use of same by Tenant.

1. Tenant, its officers, agents, servants and/or employees shall not block or obstruct any of the entries or other common areas of Property or parking areas, or place, empty or throw any rubbish, litter, trash or material of any nature into such areas, or permit such areas to be used at any time except for ingress or egress of Tenant, its officers, agents, servants, employees, patrons, licensees, customers, visitors and/or invitees.
2. The movement of furniture, equipment, machines, merchandise or materials within, into or out of the Leased Premises, Property, or parking areas shall be restricted to time, method and routing of movement as reasonably determined by Landlord upon request from Tenant and Tenant shall assume all liability and risk to property, Leased Premises, and Property in such movement.
3. No sign, door plaque, advertisement or notice shall be displayed, painted or affixed by Tenant, its officers, agents, servants, employees, patrons, licensees, assignees, sub lessees, customers, visitors and/or invitees in or on any part of the outside or inside of the Leased Premises, Property, or parking areas without prior written consent of Landlord and then only of such color, size, character, style and materials and in such places as shall be approved and designated in writing by Landlord. All signs or banners located in the interior of any store shall be professionally made. Tenant further agrees to maintain in good condition and repair at all times any such sign, banner, or advertising material of any kind which has been approved by Landlord for use by Tenant. Tenant agrees to remove all signs at the expiration of the lease term and to return the façade of the Leased Premises to its condition prior to the installation of the sign.
4. Landlord will not be responsible for lost or stolen property, equipment, money or any article taken from Leased Premises, Property, or parking areas regardless of how or when loss occurs.
5. No additional locks shall be placed on any door or changes made to existing locks in the Leased Premises or Building without the prior written consent of Landlord. Landlord will furnish two keys to each lock on doors in the Leased Premises and Landlord, upon request of Tenant shall provide additional duplicate keys at Tenant's expense. Landlord may at all times keep a pass key to the Leased Premises. All keys shall be returned to Landlord promptly upon termination of this Lease.
6. Tenant, its officers, agents, servants and/or employees shall do no painting or decorating outside or within the Leased Premises or Building, or mark, paint or cut into, drive nails or screw into or in any way deface any part of Leased Premises or Building without the prior written consent of Landlord, which shall not be unreasonably withheld, delayed or conditioned. Notwithstanding the above, Tenant is permitted to do the following at the time of its taking possession without prior written consent (provided Tenant does not cause any damage to the Leased Premises): normal and customary decorating (which includes hanging pictures and moving furniture), and installing phone and computer wiring necessary for Tenant's use of the Leased Premises. Any installation of wiring (including cabling, electrical and phone wiring) must be installed inside the walls. Tenant may not install any visible wiring or cabling in the Leased Premises or Building but may do so within the Warehouse Space, as part of Tenant's business, so long as such wiring does not violate any applicable laws, regulations, or codes. If Tenant desires signal, communication, alarm or other utility or service connection to be installed or changed, such work shall be done at expense of Tenant with the approval and under the direction of the Landlord.

7. Tenant, its officers, agents, servants and/or employees shall not permit the operation of any musical or sound-producing instruments or device that may be heard outside Leased Premises, Building or Property, or which may emanate electrical waves that will impair radio or television broadcasting or reception from or in the Property.
8. Tenant, its officers, agents, servants and/or employees shall, before leaving Leased Premises unattended, close and lock all doors and shut off all utilities; damage resulting from failure to do so shall be paid by Tenant.
9. All plate and other glass now in Leased Premises or Building which is broken during the Term or any renewal Term shall be replaced by and at expense of Tenant under the direction of Landlord.
10. Tenant shall give Landlord prompt notice of all accidents to or defects in air conditioning equipment, plumbing, electrical facilities or any part of appurtenance of Leased Premises.
11. The plumbing facilities shall not be used for any other purpose than that for which they are constructed, and no foreign objects or substances of any kind shall be thrown therein, and the expense of any breakage, stoppage or damage resulting from a violation of this provision shall be borne by Tenant, who shall, or whose officers, employees, agents, servants, patrons, customers, licensees, visitors and/or invitees shall have caused it.
12. All contractors and/or technicians performing work for Tenant within the Leased Premises, Building or Property shall be referred to Landlord for approval before performing such work. This shall apply to all work including, but not limited to, installation of telephones, telegraph equipment, electrical devices and attachments, and all installations affecting floors, walls, windows, doors, ceilings, equipment or any other physical feature of the Leased Premises, Property, or parking areas. None of this work shall be done by Tenant without Landlord's prior written approval.
13. No showcases or other articles shall be put in front of or affixed to any part of the exterior of the Building or Property, nor placed in corridors without the prior written consent of the Landlord.
14. Tenants are cautioned in purchasing furniture and equipment that the size is limited to such as can pass through the doors of the Leased Premises. Large pieces should be made in parts and set-up in the Leased Premises. Landlord reserves the right to refuse to allow to be placed in the Property any furniture or equipment of any description which does not comply with the above conditions.
15. Tenant will be responsible for any damage to the Leased Premises, including carpeting and flooring, as a result of rust or corrosion of file cabinets, roller chairs, metal objects or spills of any type of liquid.
16. If the Leased Premises become infested with vermin, Tenant, at its sole cost and expense, shall cause the Leased Premises to be exterminated from time to time, to the satisfaction of Landlord, and shall employ such exterminators therefore as shall be approved by Landlord.
17. Tenant shall not install any antenna or aerial wires, or radio or television equipment, or any other type of equipment, inside or outside of the Building, without Landlord's prior written consent, and upon such terms and conditions as may be specified by Landlord in each and every instance.
18. Tenant shall not advertise the business, profession or activities of Tenant in any manner which violates the letter or spirit of any code of ethics adopted by any recognized association or organization pertaining thereto, or use the name of the Property for any purpose other than that of the business address of Tenant or use any letterhead, envelopes, circulars, notices, advertisements, containers or wrapping material, without Landlord's express consent in writing.

19. Tenant shall not conduct its business in such manner as to create any nuisance in the Building, Property, or Landlord in its operation of the Building or Property or commit waste or suffer or permit waste to be committed in the Leased Premises, Building or Property. In addition, Tenant shall not allow its officers, agents, employees, servants, patrons, customers, licensees and/or visitors to conduct themselves in such manner as to create any nuisance in the Building or Property or Landlord in its operation of the Property or commit waste or suffer or permit waste to be committed in the Leased Premises, Building, or Property.
20. Tenant, its officers, agents, servants and/or employees shall not install or operate any refrigerating, heating or air conditioning apparatus or carry on any mechanical operation or bring into Leased Premises, Building, or Property any inflammable fluids or explosives without written consent of Landlord.
21. Tenant, its officers, agents, servants and/or employees shall not use Leased Premises, Building, or Property for housing, lodging, or sleeping purposes or for the cooking or preparation of food without the prior written consent of the Landlord.
22. Tenant, its officers, agents, servants, employees, patrons, licensees, customers, visitors and/or invitees shall not bring into the Lease Premises, Building or Property or keep in the Leased Premises any fish, fowl, reptile, insect, or animal or other vehicle without the prior written consent of Landlord, wheel chairs and baby carriages excepted.
23. Neither Tenant nor any officer, agent, employee, servant, patron, customer, visitor, licensee or invitee of any Tenant shall go upon the roof of the Building without the prior written consent of the Landlord.
24. Neither Tenant nor any officer, agent, employee, servant, patron, customer, visitor, licensee or invitee of any Tenant shall access the IT Room without the prior written consent of the Landlord and only with the supervision of Landlord. Access to the IT Room shall be governed by Section II.1 of the Lease.

GUARANTY

WHEREAS, **Modcomp, Inc**, a Delaware corporation as "Tenant," is desirous of entering into the Lease to which this Guaranty is attached; and,

WHEREAS, the undersigned "Guarantor" has requested the party hereinafter designated as "Landlord" to enter into said Lease with Tenant; and

WHEREAS, North American Holdings and Investments, LLC, a Florida limited liability company as "Landlord," will enter into said Lease only if Guarantor guarantees said Lease;

NOW, THEREFORE, to induce Landlord to enter into said Lease executed simultaneously herewith, and for other valuable and sufficient consideration, Guarantor hereby absolutely and unconditionally guarantees to Landlord and its successors and assigns, for the initial sixty (60) months of the Lease, the full and punctual performance by Tenant of all covenants, conditions and terms of said Lease on Tenant's part to be performed, including, without limitation, the payment of all rent and other sums payable by Tenant thereunder.

1. Any act of Landlord, or its successors or assigns, constituting a consent to less than strict performance of said covenants, conditions and terms by Tenant or a waiver of any of said covenants, conditions or terms may be done without notice to Guarantor and without releasing Guarantor from strict performance of its obligations hereunder.
2. Guarantor's obligations hereunder shall not be released by Landlord's receipt, application or release of any security given for the performance of said covenants, conditions and terms, nor by any assignment or transfer of said Lease nor by any modification of said Lease; but, in case of any such modification, Guarantor's liability shall be deemed modified in accordance with the terms of any such modification.
3. Until all said covenants, conditions and terms of said Lease on Tenant's part to be performed are fully performed, Guarantor, (a) shall have no right of subrogation against Tenant by reason of any payments or acts of performance by Guarantor in compliance with Guarantor's obligations hereunder, (b) waives any right to enforce any remedy which Guarantor now or hereafter may have against Tenant by reason of Guarantor's performance of its obligations hereunder, and subordinates any liability or indebtedness of Tenant now or hereafter held by Guarantor to the obligations of Tenant to Landlord under said Lease.
4. This Guaranty shall apply to said Lease, any extension or renewals thereof and to any holdover term following the term initially granted or any extension of renewal thereof.
5. This Guaranty may not be changed or terminated in any manner other than by an agreement in writing signed by Guarantor and Landlord.

IN WITNESS WHEREOF, Guarantor has executed and has delivered this Guaranty to Landlord this 7th day of ~~April~~ May, 2015.

May my

GUARANTOR: CSP Inc.

By: *[Signature]*

Victor DeLuca
Print Name

WITNESSES:

[Signature]

Mike Newbanks
Print Name

Print

Name

EXHIBIT B

IMPROVEMENTS

A. Landlord and Tenant acknowledge and agree that Landlord will deliver (i) the Warehouse Area of the Leased Premises (the "Warehouse") to Tenant on the Delivery Date and (ii) the remaining Office Area of the Leased Premises to Tenant on the Commencement Date, each in its then-current "as is" condition, except as follows:

Notwithstanding any provision of this Exhibit B to the contrary, Landlord, at its sole cost and expense, will install Premium carpeting approved by Landlord in the Office Area of the Leased Premises (except for two executive offices which were recently carpeted) before the Commencement Date (the "Landlord's Work"). Landlord shall repair the cover tarp for the parking area all within ninety days of the execution of this Lease. In addition, should Tenant exercise its first option to renew this Lease, Landlord shall repaint the lines in the parking lot within ninety days of the commencement of the First Renewal Term. The Tenant will allow the Landlord to complete Landlord's Work and will not interfere with the Landlord's completion of Landlord's Work.

B. Following the Delivery Date, Tenant shall complete construction of the Premises in accordance with the following:

1. No later than May [], 2015, Tenant will submit to Landlord for approval final working drawings and specifications of materials for all Improvements (the "Improvements") to the Warehouse that Tenant desires beyond the current "as is" condition of the Warehouse, which final working drawings will comply with the ADA, and will incorporate and be consistent with the Property standards established by Landlord. Said drawings and specifications, which will be ready to submit for permits and ready for bidding to general contractors, must be approved by Landlord prior to the commencement of any work related to the Improvements. As modified by any Landlord-required changes, the final working drawings will be the "Final Plans." Tenant is solely responsible for determining whether or not it is a public accommodation and for compliance with ADA within the Leased Premises. Tenant's approval of the Final Plans constitutes an acknowledgement by Tenant that they comply with ADA. Landlord's approval of the plans, specifications and working drawings for Tenant's alterations shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency, or compliance with all laws, rules and regulations of governmental agencies or authorities.

2. Following approval and completion of the Final Plans, Tenant shall retain a general contractor, subject to Landlord's reasonable approval of the same, to construct the Improvements.

C. Tenant will bear the cost of the Improvements including permitting fees, architectural and engineering fees, design fees and attorneys' fees or other similar fees, if any, relating to the Improvements, such as: (i) the architectural fees related to the preparation of all drawings (including CAD drawings), plans and specifications (collectively, "plans"), (ii) any architectural and engineering fees which Landlord incurs in reviewing plans prepared by Tenant's architect, (iii) engineering fees related to Tenant's engineer's participation in the planning and performance of the Improvements in the Warehouse, as well as (iv) architectural and engineering fees which Landlord incurs in modifying Landlord's master working drawings to incorporate plans prepared by Tenant's architect (where an architect other than Landlord's architect has prepared Tenant's working drawings and specifications and/or Final Plans), (v) the cost of obtaining any permits or other approvals pursuant to any applicable ordinances, laws, rules and regulations and (vi) all costs and expenses incurred in the construction of Improvements over and above the then-current "as is" condition of the Leased Premises (collectively "Tenant's Costs"). Landlord and Tenant expressly agree that Tenant's Costs shall include cap fees and all charges associated with utility connections Tenant's architect, at Tenant's cost and expense, shall deliver to Landlord in electronic format containing "as-built" CAD drawings and specifications regarding such Improvements. In addition, Landlord and Tenant expressly agree that Tenant shall separately demise the Warehouse, and all costs incurred shall be part of Tenant's Costs and shall not be eligible for reimbursement from the Improvement Allowance, except for those items 1 - 4, listed below in this paragraph. Landlord will contribute an allowance (the "Improvement Allowance") of up to Sixty Thousand Dollars (\$60,000.00) provided, however, the Improvement Allowance must be used to construct the following improvements to the Warehouse, which improvements automatically and immediately become the Landlord's property:

1. Installation of a heating, ventilation and air conditioning system (the "HVAC");
2. Installation of electrical systems;
3. Installation of ceiling insulation and paint the interior walls and ceiling; and
4. Installation of a bay door.

D. If Tenant requires any changes in the Final Plans (the "Tenant Changes"), Tenant must present Landlord with revised drawings and specifications (and, if applicable, proposed substitute or replacement

materials) for Landlord's review and approval, which approval will be in Landlord's sole discretion. Upon Landlord's approval of the Tenant Changes, Tenant will incorporate such changes in the Improvements.

E. Tenant will complete construction of the Improvements in accordance with the Final Plans, the terms of the Lease, the terms set forth in the Paragraphs above, and the following:

1. Tenant will select and retain a licensed, reputable general contractor approved by Landlord to oversee plans and schedule and manage construction of the Improvements. The Improvements shall be completed in a first class workmanlike manner, using only new materials, fixtures and equipment, and shall be performed by reputable contractors and subcontractors who are licensed to conduct business in the jurisdiction in which the Leased Premises are located, and such contractors and subcontractors shall be subject to Landlord's prior written approval. The performance of the Improvements shall be subject to all contractor and construction rules, regulations and guidelines established by Landlord from time to time.

2. During Tenant's construction of the Improvements, Landlord and its consultants and architect will have access to the Leased Premises for the purpose of monitoring the construction of the Improvements and ensuring their compliance with the Final Plans and the requirements of this Lease. Landlord and its consultants and architect will not interfere with Tenant's or its contractors' construction of the Improvements, except to the extent reasonably necessary (including halting work, if necessary) to ensure such compliance.

3. Prior to commencing any work with respect to such Improvements, and thereafter until the same are completed, Tenant shall obtain and maintain and/or cause Tenant's contractor to obtain and maintain insurance against: claims under workmen's compensation and other employee benefit acts, with limits not less than \$500,000.00; claims for damages because of bodily injury, including death, to said contractor's employees and all others, with a single limit of at least \$3,000,000.00 per person and per occurrence; and damages to property with limits of \$3,000,000.00. All such coverages shall be maintained with such companies as Landlord reasonably approves. Such contractors and subcontractors must provide Landlord with certificates of insurance prior to commencement of work, and such certificates shall list Landlord and its managing agent and any other designee of Landlord as additional insureds.

4. Throughout the period during which any such Improvements are being performed, Tenant and Tenant's contractors shall: (1) keep the Leased Premises, the Property, the Common Areas and all areas adjacent thereto free of debris, refuse, equipment, materials and personal property, and (2) initiate, maintain and supervise all reasonably necessary safety precautions and programs in connection with the work.

5. Immediately upon the completion of the Improvements: (i) Tenant shall remove and cause Tenant's contractors and any subcontractors to remove any and all debris, refuse, equipment, materials and personal property left on the Leased Premises, in the Common Areas, in the Property, or any area adjacent thereto, and (ii) Tenant shall deliver to Landlord full and complete lien releases executed by all of Tenant's contractors, subcontractors and materialmen which performed work or provided materials in connection with such Improvements.

6. Tenant, as construction manager, will enter into contracts with its general contractors and major subcontractors performing the Improvements. As set forth above, all contractors and major subcontractors, as well as the scheduling of all construction work in the Leased Premises shall be subject to Landlord's prior approval, which approval will not be unreasonably withheld, conditioned or delayed. Tenant will be responsible for all Tenant's Costs, subject to partial reimbursement in accordance with the terms set forth in Paragraph F below.

F. No more than once a month during the completion of the Improvements, Tenant will submit invoices to Landlord in accordance with the procedures set forth below. Tenant will submit to Landlord either paid invoices for reimbursement or unpaid invoices from Tenant's general contractor, both of which must be accompanied by lien waivers from the general contractor and all subcontractors with work reflected in such invoice, along with written instructions from Tenant to reimburse the same or to pay the same directly to the general contractor (hereinafter, the "Approved Invoices"). It is understood and agreed that only the following costs are eligible for reimbursement or payment by Landlord in accordance with the terms hereof: (i) installation of the HVAC, (ii) installation of electrical systems, (iii) painting of the interior walls and ceiling and (iv) installation of a bay door. Provided Tenant is not then in default of its obligations under the Lease, Approved Invoices shall be paid from the Improvement Allowance within thirty (30) days following receipt of Approved Invoices for work and materials forming a part of the Improvements totaling at least the amount requested by Tenant, which Approved Invoices must include full and complete lien waivers from the contractors or subcontractors who have performed work or delivered materials in connection with the Improvements, it being agreed that such lien waivers may be conditioned on payment only if Landlord will be paying the general contractor directly. Landlord will pay Tenant the amount of such Approved Invoices to the extent of the Improvement Allowance (subject to the limitations set forth above). Notwithstanding the foregoing, if the cost of the Improvements exceeds the amount of the Improvement Allowance (hereinafter, the "Excess"), Tenant agrees to pay all such Excess prior to commencing business operations from the

Leased Premises. Notwithstanding any provision hereof to the contrary, Tenant hereby waives any right to any portion of the Improvement Allowance to the extent that Tenant has not properly requested payment of the same (and submitted the appropriate documentation in connection therewith as provided above) within one hundred eighty (180) days following the Delivery Date.

G. Any subsequent alterations or improvements desired by Tenant after the completion of the Tenant Work shall be subject to the provisions of Article 14 of the Lease.

H. Any approvals of Landlord required by this Exhibit B must be in writing.

I. All Landlord approved Improvements by Tenant shall be and remain the Property of Landlord.

FARLEY | WHITE
MANAGEMENT

155 FEDERAL STREET
18TH FLOOR
BOSTON, MA 02110

T: 617.654.9400
F: 617.338.2387
WWW.FARLEYWHITE.COM

September 9, 2015

Gary Levine
CSP, Inc.
43 Manning Road
Billerica, MA 01821

RE: FULLY-EXECUTED LEASE
Wannalancit Mill, Lowell

Dear Gary:

Enclosed please find a fully-executed original lease for your files. We look forward to CSP's tenancy with us.

We are still awaiting the original letter of credit which can be sent to my attention once issued.

Deborah Isensee manages Wannalancit Mill and will be your best point of contact in regards to the upcoming improvements, day-to-day operations and move logistics. Deborah can be reached directly at (978) 259-5241.

Again, we thank CSP for your business and look forward to welcoming you to Wannalancit Mill.

Sincerely,


Meredith Fay
Analyst

Enclosure

Cc: *John F. Power, Farley White Interests*
Deborah Isensee, Farley White Management

LEASE

This instrument is an indenture of lease by and between **Fortune Wakefield, LLC** ("Landlord") and **CSP, Inc.**, a Massachusetts corporation ("Tenant").

The parties to this instrument hereby agree with each other as follows:

ARTICLE I SUMMARY OF BASIC LEASE PROVISIONS

1.1 INTRODUCTION

As further supplemented in the balance of this instrument and its Exhibits, the following set forth the basic terms of this Lease, and, where appropriate, constitute definitions of certain terms used in this Lease.

1.2 BASIC DATA

Date:	September 8, 2015
Landlord:	Fortune Wakefield, LLC
Present Mailing Address of Landlord:	c/o Farley White Management Company, LLC 660 Suffolk Street Lowell, MA 01854
Payment Address:	Fortune Wakefield, LLC c/o Farley White Management Company, LLC 155 Federal Street, Suite 1800 Boston, MA 02110
Managing Agent:	Farley White Management Company, LLC 660 Suffolk Street Lowell, MA 01854
Tenant:	CSP, Inc.
Mailing Address of Tenant:	175 Cabot Street Lowell, MA 01854
Premises:	13,515 Rentable Square Feet

Lease Term:	Five (5) Years, three (3) months (plus the partial calendar month, if any, immediately following the Term Commencement Date).
Term Commencement Date:	The earlier of the Substantial Completion Date (as defined in Section 3.2) or the date Tenant occupies the Premises for the purpose of conducting business, but in no event earlier than December 1, 2015.
Base Rent:	Year 1: \$130,500.00/annum; \$10,875.00/month Year 2: \$150,000.00/annum; \$12,500.00/month Year 3: \$170,500.00/annum; \$14,208.33/month Year 4: \$216,240.00/annum; \$18,020.00/month Year 5: \$222,997.50/annum; \$18,583.13/month
Rent Commencement Date:	The ninetieth (90 th) day following the Term Commencement Date.
Security Deposit:	Letter of Credit in the amount of \$50,000.00 and due in accordance with <i>Lease Section 17.16</i> .
Permitted Use:	For general office and light research and development uses and for no other purpose or purposes
Tenant's Proportionate Share:	5.33% . Tenant's Proportionate Share shall be adjusted in the event of any increase or decrease in the total square footage of rentable floor area contained within the Premises and/or the Building, based upon the square footage of rentable floor area contained within the Premises as compared to the square footage of rentable floor area contained within the Building, as increased or decreased.
Operating Expense Base	Actual Calendar Year 2015 Expenses
Real Estate Tax Base	Actual Fiscal Year 2016 Expenses
Unreserved Parking Spaces:	The total number of parking spaces: thirty-nine (39). Location of Parking spaces: four (4) - West Yard, six (6) - Cabot Lot, three (3) - Tremont Yard, twenty-six (26) - Ayotte Garage. Parking spaces will not be reserved and will be used in common

with others entitled to use spaces in the yards and the garage.

1.3 ENUMERATION OF EXHIBITS

Exhibit A:	Plan showing the Premises
Exhibit B:	Furniture
Exhibit C:	Building Services
Exhibit D:	Rules and Regulations
Exhibit E:	Floor plan and scope of work to be completed

ARTICLE II DESCRIPTION OF PREMISES AND APPURTENANT RIGHTS

2.1 LOCATION OF PREMISES

The Landlord hereby leases to Tenant, and Tenant hereby accepts from Landlord, the premises (the "Premises") identified on **Exhibit A** in Landlord's building (the "Building") located at 175 Cabot Street and 650 & 660 Suffolk Street in Lowell, MA. Nothing in Exhibit A shall be treated as a representation that the Premises or the Building shall be precisely of the area, dimensions, or shapes as shown, it being the intention of the parties only to show diagrammatically, rather than precisely, on **Exhibit A** the layout of the Premises and the Building.

2.2 APPURTENANT RIGHTS AND RESERVATIONS

Tenant shall have, as appurtenant to the Premises, rights to use in common with others entitled thereto the common facilities included in the Building or the land on which the Building is located (the "Lot"), including common walkways, driveways, lobbies, hallways, ramps, and stairways. Such rights shall always be subject to reasonable rules and regulations from time to time established by Landlord by suitable notice, and to the right of Landlord to designate and to change from time to time the areas and facilities so to be used, provided that such changes do not unreasonably interfere with the use of the Premises for the Permitted Use.

Not included in the Premises are the roof or ceiling, the floor and all perimeter walls of the space identified in **Exhibit A**, except the inner surfaces thereof and the perimeter doors and windows. The Landlord reserves the right to install, use, maintain, repair and replace in the Premises (but in such manner as not unreasonably to interfere with Tenant's use of the Premises and upon reasonable notice provided by Landlord) utility lines, shafts, pipes, and the like, in, over and upon the Premises, provided that the same are located above the dropped ceiling (or, if there is no dropped ceiling, then within three (3) feet of the roof deck), below the floor surfaces or tight against demising walls or

columns. Landlord agrees to repair any damage to the Premises caused by the installation of any such items. Such utility lines, shafts, pipes and the like shall not be deemed part of the Premises under this Lease. The Landlord also reserves the right to alter or relocate any common facility, provided that substitutions are at least equivalent in quality and functional utility to the common facilities as of the date of this Lease, and to change the lines of the Lot. In conducting any such alteration or relocation, Landlord shall use reasonable effort so that Tenant's operations shall not be negatively impacted.

ARTICLE III TERM OF LEASE: CONDITION OF PREMISES

3.1 TERM OF LEASE

The term of this Lease shall be the period specified in Section 1.2 hereof as the "Lease Term" commencing upon the Term Commencement Date specified in Section 1.2.

3.2 CONDITION OF PREMISES

Tenant acknowledges that it has inspected the Premises and agrees to accept same in its "as is" condition, except for the performance of the Landlord's Work, as described below.

Landlord has agreed to touch-up paint throughout the Premises as needed and to have the Premises professionally cleaned. Landlord has also agreed to complete all work pursuant to Exhibit E ("Landlord's Work").

Landlord shall be responsible for delivering all base building portions of the Premises including the roof, foundation, structural supports, loading docks, exterior windows, mechanical equipment, electrical equipment, plumbing, and life safety systems in good working order fit for use through the balance of the Lease Term upon Lease Commencement.

For purposes of determining the Commencement Date, the Work required to be performed by Landlord shall be deemed substantially completed (the "Substantial Completion Date), notwithstanding the existence of certain incomplete cosmetic or other work, or "punchlist items" such as details or adjustments, which do not materially interfere with Tenant's use and occupancy of the Premises for the ordinary conduct of its business. Within 5 Business Days of receipt of notice from Landlord of the anticipated Substantial Completion Date, Landlord and Tenant shall make a joint inspection of the Premises and prepare a memorandum (the "**Punchlist**") setting forth all items remaining to be completed by Landlord. Landlord shall proceed diligently and in good faith to complete the items shown on the Punchlist without unreasonable disruption to Tenant's operations, and if reasonably possible, within 30 days of the Commencement Date. The mutual agreement of Landlord and Tenant shall decide all matters relating to the preparation or completion of the Punchlist.

ARTICLE IV
RENT

4.1 RENT PAYMENTS

The Base Rent (at the rates specified in Section 1.2 hereof) and the additional rent or other charges payable pursuant to this Lease (collectively the "Rent") shall be payable by Tenant to Landlord at the Payment Address or such other place as Landlord may from time to time designate by notice to Tenant without any demand whatsoever except as otherwise specifically provided in this Lease and without any counterclaim, offset or deduction whatsoever. Rent shall be made payable to the order of Managing Agent as agent for Landlord.

(a) Commencing on the Rent Commencement Date, Base Rent and the monthly installments of Tenant's Proportionate Share of the Taxes and Tenant's Proportionate Share of Operating Expenses shall be payable in advance on the first day of each and every calendar month during the term of this Lease. If the Rent Commencement Date falls on a day other than the first day of a calendar month, the first payment which Tenant shall make shall be made on the Rent Commencement Date and shall be equal to a proportionate part of such monthly Rent for the partial month from the Rent Commencement Date to the first day of the succeeding calendar month, and the monthly Rent for such succeeding calendar month. As used in this Lease, the term "lease year" shall mean any twelve (12) month period commencing on the Commencement Date.

(b) Base Rent and the monthly installments of Tenant's Proportionate Share of the Taxes and Tenant's Proportionate Share of Operating Expenses for any partial month shall be paid by Tenant to Landlord at such rate on a pro rata basis. Any other charges payable by Tenant on a monthly basis, as hereinafter provided, shall likewise be prorated.

(c) If any monthly payment is not paid on or by the date it is due more than once during any twelve (12) month period, Tenant shall pay to Landlord an administrative fee equal to ten (10) percent of the unpaid amount. In addition, Tenant shall pay to the Landlord interest at a rate of 1.5% per month on all sums whatever becoming due under this lease, and not paid within five (5) days after their due date, if called upon the Landlord to do so. Landlord's acceptance of any late charge or interest shall not constitute a waiver of Tenant's default with respect to the overdue amount.

4.2 REAL ESTATE TAX

(a) The term "Taxes" shall mean all taxes and assessments (including without limitation, assessments for public improvements or benefits and water and sewer use charges), and other charges or fees in the nature of taxes for municipal services which at any time during or in respect of the Lease Term may be assessed, levied, confirmed or imposed on or in respect of, or be a lien upon, the Building and the Lot, or any part thereof, or any rent therefrom or any estate, right, or interest therein, or any occupancy,

use, or possession of such property or any part thereof, and ad valorem taxes for any personal property used in connection with the Building or Lot. Without limiting the foregoing, Taxes shall also include any payments made by Landlord in lieu of taxes. The Landlord agrees that Tenant's share of any special assessment shall be determined (whether or not Landlord avails itself of the privilege so to do) as if Landlord had elected to pay the same in installments over the longest period of time permitted by applicable law and Tenant shall be responsible only for those installments (including interest accruing and payable thereon) or parts of installment that are attributable to periods within the Lease Term.

Should the Commonwealth of Massachusetts, or any political subdivision thereof, or any other governmental authority having jurisdiction over the Building, (1) impose a tax, assessment, charge or fee, which Landlord shall be required to pay, by way of substitution for or as a supplement to such Taxes, or (2) impose an income or franchise tax or a tax on rents in substitution for or as a supplement to a tax levied against the Building or the Lot or any part thereof and/or the personal property used in connection with the Building or the Lot or any part thereof, all such taxes, assessments, fees or charges ("Substitute Taxes") shall be deemed to constitute Taxes hereunder. Taxes shall also include, in the year paid, all fees and costs incurred by Landlord in reasonably seeking to obtain a reduction of, or a limit on the increase in, any Taxes, regardless of whether any reduction or limitation is obtained. Except as hereinabove provided with regard to Substitute Taxes, Taxes shall not include any inheritance, estate, succession, capital levy, transfer, gift, franchise, net income or capital stock tax.

(b) The Tenant shall pay to Landlord, as additional rent, Tenant's Proportionate Share of any increase in the Taxes assessed against the Building and Lot during any tax year (i.e., July 1 through June 30, as the same may change from time to time) over the Real Estate Tax Base as defined in Section 1.2 during the Lease Term. The Tenant shall pay to Landlord, together with monthly payments of Base Rent, pro rata monthly installments on account of the projected Tax increase over the Real Estate Tax Base for each lease year reasonably calculated by Landlord from time to time by Landlord with an adjustment made after the close of the tax year, to account for actual Taxes for such tax year. The initial monthly payments on account of Taxes shall be zero per month. If the total of such monthly installments in any lease year is greater than Tenant's Proportionate Share of actual Taxes for such tax year, Tenant shall be entitled to a credit against Tenant's rental obligations hereunder in the amount of such difference or, if the Lease Term has expired and Tenant has no outstanding monetary obligations to Landlord, Landlord shall promptly pay such amount to Tenant. In no event shall the Landlord credit Tenant's account for an amount greater than the amount of Taxes paid in by Tenant during the lease year. If the total of such monthly installments is less than such liability for such tax year, Tenant shall pay to Landlord the amount of such difference within thirty (30) days after Tenant receives Landlord's invoice therefor.

(c) If any Taxes, with respect to which Tenant shall have paid Tenant's Proportionate Share, shall be adjusted to take into account any abatement or refund, Tenant shall be entitled to a credit against rental obligations hereunder, in the amount of

Tenant's Proportionate Share of such abatement or refund less Landlord's costs or expenses, including without limitation appraiser's and attorneys' fees, of securing such abatement or refund or, if the Lease Term has expired and Tenant has no outstanding monetary obligations to Landlord, Landlord shall promptly pay such amount to Tenant. The Tenant shall not apply for any real estate tax abatement without the prior written consent of Landlord. In no event shall Landlord credit Tenant's account for an amount greater than the amount of Taxes actually paid in by Tenant during the lease year.

(d) Tenant shall pay or cause to be paid, prior to delinquency, any and all taxes and assessments levied upon all trade fixtures, inventories and other personal property placed in and upon the Premises by Tenant.

4.3 TENANT'S SHARE OF OPERATING COSTS

The Tenant shall pay to Landlord, as additional rent, Tenant's Proportionate Share of Operating Costs (defined below). The Tenant shall pay to Landlord pro rata monthly installments on account of the projected increase in Operating Costs over the Operating Expense Base (as defined in Section 1.2) for each lease year during the Lease Term in amounts reasonably calculated from time to time by Landlord with an adjustment made after the close of the lease year, to account for actual Operating Costs for such lease year. The initial monthly payments on account of Operating Costs shall be zero per month. If the total of such monthly installments in any lease year is greater than Tenant's Proportionate Share of actual Operating Costs for such lease year, Tenant shall be entitled to a credit against Tenant's monthly installments on account of projected Operating Costs hereunder in the amount of such difference or, if the Lease Term has expired and Tenant has no outstanding monetary obligations to Landlord, Landlord shall promptly pay such amount to Tenant. In no event shall the Landlord credit Tenant's account for an amount greater than the amount of Operating Costs actually paid in by Tenant during the lease year. If the total of such monthly installments is less than such liability for such lease year, Tenant shall pay to Landlord the amount of such difference, as additional rent, within thirty (30) days after Tenant receives Landlord's invoice therefor.

As used in this Lease, the term "Operating Costs" shall mean all costs and expenses incurred by Landlord in connection with operation, insuring, repair, equipping, maintenance, management, cleaning and protection (collectively, "the Operation") of the Building, the Building heating, ventilating, electrical, plumbing, and other systems and the Lot (collectively, "the Property"), including, without limitation, the following:

(1) All expense incurred by Landlord or its agents which shall be related to employment of day and night supervisors, janitors, handymen, carpenters, engineers, firemen, mechanics, electricians, plumbers, guards, cleaners and other personnel (including amounts incurred for wages, salaries and other compensation for services, payroll, social security, unemployment and similar taxes, workmen's compensation insurance, disability benefits, pensions, hospitalization, retirement plans and group insurance, uniforms and working clothes and the cleaning thereof, and expenses imposed on Landlord or its agents pursuant to any collective bargaining agreement), for services in

connection with the Operation of the Property, and personnel engaged in supervision of any of the persons mentioned above; provided, however, that the costs of employing personnel who work less than full-time in connection with the Operation of the Property shall be equitably adjusted;

(2) The cost of services, materials and supplies furnished or used in the Operation of the Property;

(3) The amounts paid to managing agents and for legal and other professional fees relating to the Operation of the Property, but excluding such fees paid in connection with (x) negotiations for or the enforcement of leases; and (y) seeking abatements of Taxes; provided, however, that management fees shall not exceed prevailing market rates;

(4) Insurance premiums and the positive difference, if any, between the amounts of what the insurance premiums would be if such insurance were maintained without deductibles over the actual premiums for such policies;

(5) Costs for electricity, steam and other utilities required in the Operation of the Property;

(6) Water and sewer use charges;

(7) The costs of snow-plowing and removal, parking fees and parking lot maintenance, and landscaping;

(8) Amounts paid to independent contractors for services, materials and supplies furnished for the Operation of the Property; and

(9) All other expenses incurred in connection with the Operation of the Property.

Operating Costs may be incurred directly or by way of reimbursement, and shall include taxes applicable thereto. The following shall be excluded from Operating Costs:

- leasing commissions, fees and costs, advertising and promotional expenses and other costs incurred in procuring tenants or in selling the Building or the Site;
- legal fees or other expenses incurred in connection with enforcing leases with tenants in the Building;
- costs of renovating or otherwise improving or decorating space for any tenant or other occupant of the Building or the Site, including Tenant, or relocating any tenant;

- financing costs including interest and principal amortization of debts and the costs of providing the same;
- except as otherwise expressly provided above, depreciation;
- rental on ground leases or other underlying leases and the costs of providing the same;
- wages, bonuses, fringe benefits and other compensation of employees above the grade of Building Manager;
- any liabilities, costs or expenses associated with or incurred in connection with the removal, enclosure, encapsulation or other handling of Hazardous Substances (as defined in Section 5.7 below) and the cost of defending against claims in regard to the existence or release of Hazardous Substances at the Building or the Site (except with respect to those costs for which Tenant is otherwise responsible pursuant to the express terms of this Lease);
- costs of any items for which Landlord is or is entitled to be paid or reimbursed by insurance;
- increased insurance or Real Estate Taxes assessed specifically to any tenant of the Building or the Site for which Landlord is entitled to reimbursement from any other tenant;
- charges for electricity, water, or other utilities, services or goods and applicable taxes for which Tenant or any other tenant, occupant, person or other party is obligated to reimburse Landlord or to pay to third parties;
- cost of any HVAC, janitorial or other services provided to tenants on an extra cost basis after regular business hours;
- the cost of installing any specialty service, such as a cafeteria, observatory, broadcasting facilities, child or daycare;
- cost of correcting defects in the design, construction or equipment of, or latent defects in, the Building or the Site;
- cost of any work or service performed on an extra cost basis for any tenant in the Building or the Site to a materially greater extent or in a materially more favorable manner than furnished generally to the tenants and other occupants;

- cost of any work or services performed for any facility other than the Building or Site;
- any cost representing an amount paid to a person firm, corporation or other entity related to Landlord that is in excess of the amount which would have been paid in the absence of such relationship;
- cost of initial cleaning and rubbish removal from the Building or the Site to be performed before final completion of the Building or tenant space;
- cost of initial landscaping of the Building or the Site;
- except as expressly provided above, cost of any item that, under generally accepted accounting principles, are properly classified as capital expenses;
- lease payments for rental equipment (other than equipment for which depreciation is properly charged as an expense) that would constitute a capital expenditure if the equipment were purchased;
- cost of the initial stock of tools and equipment for operation, repair and maintenance of the Building or the Site;
- late fees or charges incurred by Landlord due to late payment of expenses, except to the extent attributable to Tenant's actions or inactions;
- cost of acquiring, securing cleaning or maintaining sculptures, paintings and other works of art;
- real estate taxes or taxes on Landlord's business (such as income, excess profits, franchise, capital stock, estate, inheritance, etc.);
- direct costs or allocable costs (such as real estate taxes) associated with parking operations if there is a separate charge to Tenant, other than tenants or the public for parking;
- charitable or political contributions;
- reserve funds;
- all other items for which another party compensates or pays so that Landlord shall not recover any item of cost more than once;
- any cost associated with operating as an on or off-site management office for the Building, except to the extent included in the management fee permitted hereby;

- costs and expenses incurred in connection with compliance with or contesting or settlement of any claimed violation of law or requirements of law, except to the extent attributable to Tenant's actions or inactions;
- costs of mitigation or impact fees or subsidies (however characterized), imposed or incurred prior to the date of the Lease or imposed or incurred solely as a result of another tenant's or tenants' use of the Site or their respective premises; and
- costs related to public transportation, transit or vanpools, except to the extent such costs would not be excluded under Section ___ above or that Tenant shall elect to participate in the service to which such costs relate.

ARTICLE V USE OF PREMISES

5.1 PERMITTED USE

Tenant agrees that the Premises shall be used and occupied by Tenant only for the purposes specified as the Permitted Use thereof in Section 1.2 of this Lease, and for no other purpose or purposes.

The Tenant shall comply and shall cause its employees, agents, and invitees to comply with such reasonable rules and regulations as Landlord shall from time to time establish for the proper regulation of the Building and the Lot, provided that Landlord gives Tenant reasonable advance notice thereof and that such additional rules and regulations shall be of general application to all the tenants in the Building, except where different circumstances justify different treatment.

Landlord hereby recognizes that Tenant's operation includes some light research & development and "server room" areas which require supplemental cooling.

5.2 COMPLIANCE WITH LAWS

Tenant agrees that no trade or occupation shall be conducted in the Premises or use made thereof which will be unlawful, improper, or contrary to any law, ordinance, by-law, code, rule, regulation or order applicable in the municipality in which the Premises are located or which will disturb the quiet enjoyment of the other tenants of the Building. Tenant shall obtain any and all approvals, permits, licenses, variances and the like from governmental or quasi-governmental authorities, including without limitation any Architectural Access Board and Board of Fire Underwriters (collectively, "Approvals") which are required for Tenant's use of the Premises other than a general Occupancy Permit, including, without limitation, any which may be required for any construction work and installations, alterations, or additions made by Tenant to, in, on, or

about the Premises; provided, however, that Tenant shall not seek or apply for any Approvals without first having given Landlord a reasonable opportunity to review any applications for Approvals and all materials and plans to be submitted in connection therewith and obtaining Landlord's written consent, which consent shall not be unreasonably withheld. In any event, Tenant shall be responsible for all costs, expenses, and fees in connection with obtaining all Approvals. Without limiting the general application of the foregoing, Tenant shall be responsible for compliance of the Premises, including, without limitation, any alterations it may make to the Premises with the requirements of the Americans with Disabilities Act (42 U.S.C. Section 12101 et seq.) and the regulations and Accessibility Guidelines for Buildings and Facilities issued pursuant thereto, as the same may be amended from time to time (collectively, the "ADA"). The Landlord shall be responsible for the compliance with the requirements of the ADA of (x) the common areas of the Building and Lot and (y) the access to the Premises from the common areas. Tenant's inability to obtain or delay in obtaining any such Approval shall in no event reduce, delay, or terminate Tenant's rental, payment, and performance obligations hereunder. Tenant shall, at its own cost and expense, (i) make all installations, repairs, alterations, additions, or improvements to the Premises required by any law, ordinance, by-law, code, rule, regulation or order of any governmental or quasi-governmental authority; (ii) keep the Premises equipped with all required safety equipment and appliances; and (iii) comply with all laws, ordinances, codes, rules, regulations, and orders and the requirements of Landlord's and Tenant's insurers applicable to the Premises, Building and Lot. Tenant shall not place a load upon any floor in the Premises exceeding the lesser of (a) the floor load per square foot of area which such floor was designed to carry as certified by Landlord's architect and (b) the floor load per square foot of area which is allowed by law. Landlord reserves the right to prescribe the weight and position of all business machines and mechanical equipment, including safes, which shall be placed so as to distribute the weight. Notwithstanding the foregoing paragraph, to the best of Landlord's knowledge, the Building is substantially in compliance with ADA.

5.3 INSURANCE RISKS

Tenant shall not permit any use of the Premises which will make voidable or, unless Tenant pays the extra insurance premium attributable thereto as provided below, increase the premiums for any insurance on the Building or on the contents of said property or which shall be contrary to any law or regulation from time to time established by the New England Fire Insurance Rating Association (or any successor organization) or which shall require any alteration or addition to the Building. Tenant shall, within thirty (30) days after written demand therefor, reimburse Landlord and all other tenants for the costs of all extra insurance premiums caused by Tenant's use of the Premises. Any such amounts shall be deemed to be additional rent hereunder.

5.4 ELECTRICAL EQUIPMENT

The Tenant shall not, without Landlord's written consent in each instance, connect to the electrical distribution system any fixtures, appliances, or equipment which will

operate individually or collectively at a wattage in excess of the capacity of the electrical system serving the Premises as the same may be reasonably determined by Landlord and Landlord may audit Tenant's use of electric power to determine Tenant's compliance herewith. If Landlord, in its sole discretion, permits such excess usage, Tenant will pay for the cost of such excess power as additional rent, together with the cost of installing any additional risers, meters, or other facilities that may be required to furnish or measure such excess power to the Premises. Landlord hereby acknowledges and approves Tenant's use of supplemental HVAC and "server room" functions within the Premises as shown in Exhibit E attached hereto.

5.5 TENANT'S OPERATIONAL COVENANTS

(a) Affirmative Covenants

In regard to the use and occupancy of the Premises, and except as set forth in Exhibit C, Tenant will at its expense: (1) keep the inside of all glass in the doors and windows of the Premises reasonably clean; (2) replace promptly any cracked or broken glass of the Premises with glass of like kind and quality; (3) maintain the Premises in a clean, orderly and sanitary condition and free of insects, rodents, vermin and other pests; (4) keep any garbage, trash, rubbish or other refuse in vermin-proof containers within the interior of the Premises until removed (and Tenant shall cause the Premises to be inspected and exterminated on a regular basis by a reputable, licensed exterminator and shall provide Landlord, on request, with a copy of Tenant's contract for such services); (5) keep all mechanical apparatus free of vibration and loud noise which may be transmitted beyond the Premises; and (6) comply with and observe all rules and regulations reasonably established by Landlord from time to time. The current Building Rules and Regulations are attached in **Exhibit D**.

(b) Negative Covenants

In regard to the use and occupancy of the Premises and common areas, Tenant will not: (7) place or maintain any trash, refuse or other articles in any vestibule or entry of the Premises, on the sidewalks or corridors adjacent thereto or elsewhere on the exterior of the Premises so as to obstruct any corridor, stairway, sidewalk or common area; (8) permit undue accumulations of or burn garbage, trash, rubbish or other refuse within or without the Premises; (9) cause or permit objectionable odors to emanate or to be dispelled from the Premises; or (10) commit, or suffer to be committed, any waste upon the Premises or any public or private nuisance or other act or thing which may disturb the quiet enjoyment of any other tenant or occupant of the Building, or use or permit the use of any portion of the Premises for any unlawful purpose; (11) park trucks or other vehicles in a manner that will block access to the loading docks serving the Building, except when Tenant is actively using such loading docks.

5.6 SIGNS

Except as expressly permitted in this Section 5.6, Tenant shall not place any signs, placards, or the like on the Building or in the Premises that will be visible from outside the Premises (including without limitation both interior and exterior surfaces of windows). Landlord shall be responsible for delivering building standard signage at Tenant's entryway as well as placing Tenants name on all applicable directories.

5.7 HAZARDOUS MATERIALS

The Tenant shall not use, handle or store or dispose of any oil, hazardous or toxic substances, materials or wastes (collectively "Hazardous Materials") in, under, on or about the Property except for such storage and use consented to by Landlord in advance which consent may be withheld in Landlord's sole and absolute discretion. Any Hazardous Materials in the Premises, and all containers therefor, shall be used, kept, stored and disposed of in conformity with all applicable laws, ordinances, codes, rules, regulations and orders of governmental authorities. If the transportation, storage, use or disposal of Hazardous Materials anywhere on the Property in connection with Tenant's use of the Premises results in (1) contamination of the soil or surface or ground water or (2) loss or damage to person(s) or property, then Tenant agrees (i) to notify Landlord immediately of any contamination, claim of contamination, loss or damage, (ii) after consultation with and approval by Landlord, to clean up all contamination in full compliance with all applicable statutes, regulations and standards, and (iii) to indemnify, defend and hold Landlord harmless from and against any claims, suits, causes of action, costs and fees, including, without limitation, attorneys' fees, arising from or connected with any such contamination, claim of contamination, loss or damage. This provision shall survive the termination of this Lease. No consent or approval of Landlord shall in any way be construed as imposing upon Landlord any liability for the means, methods, or manner of removal, containment or other compliance with applicable law for and with respect to the foregoing. The terms of this Section 5.7 shall apply to any transportation, storage, use or disposal of Hazardous Materials irrespective of whether Tenant has obtained Landlord's consent therefor but nothing in this Lease shall limit or otherwise modify the requirement of obtaining Landlord's prior consent as set forth in the first sentence of this Section 5.7.

ARTICLE VI INSTALLATIONS, ALTERATIONS, AND ADDITIONS

6.1 INSTALLATIONS, ALTERATIONS, AND ADDITIONS

Tenant shall not make structural installations, alterations, or additions to the Premises, but may make nonstructural installations, alterations or additions provided that Landlord consents thereto in advance and in writing, which consent shall not be unreasonably withheld, delayed or conditioned as to work in the existing office space that will not affect the utility or building service systems or equipment. In any event, Tenant

shall not demolish the existing office space in the Premises, without the prior written approval of Landlord, which approval may be withheld in Landlord's sole and absolute discretion. In no event shall Landlord's approval of any proposed installations, alterations, or additions to the Premises, whether in connection with Tenant's initial leasehold improvements or otherwise, constitute a representation by Landlord that such work complies with the requirements of any applicable law or regulation, including without limitation the requirements of the ADA. Any installations, alterations, or additions made by Tenant shall be at Tenant's sole cost and expense and shall be done in a good and workmanlike manner using materials of a quality at least equivalent to that of the existing improvements and in compliance with the requirements of Section 5.2; and prior to Tenant's use of the Premises, after the performance of any such work by Tenant, Tenant shall procure certificates of occupancy and any other required certificates. Tenant shall not suffer or permit any mechanics' or similar liens to be placed upon the Premises for labor or materials furnished to Tenant or claimed to have been furnished to Tenant in connection with work of any character performed or claimed to have been performed at the direction of Tenant, and shall cause any such lien to be released of record forthwith without cost to Landlord. Any and all Tenant installations, alterations, and additions, in or to the Premises, that are intended to become or do become part of the real estate or fixtures therein (other than trade fixtures that are readily removable without damage to the Premises) including but not limited to equipment, appliances, and machinery, shall be fully paid for and free and clear of any and all chattel mortgages, conditional bills of sale, security interests, or any liens or encumbrances of any kind or nature. At all times when any installation, alteration, or addition by Tenant is in progress, there shall be maintained, at Tenant's cost and expense, insurance meeting the requirements of Section 11.3 below and certificates of insurance evidencing such coverage shall be furnished to Landlord prior to the commencement of any such work. Any installations, alterations or additions made by Tenant to the Premises, including, without limitation, all utility systems, fixtures, machinery, equipment, and appliances installed in connection therewith, other than movable personal property, shall become the property of Landlord at the termination or expiration of this Lease, unless Landlord requires, at the time of Landlord's approval of such work, Tenant to remove any of the same, in which event Tenant shall, at its own cost and expense, comply with such requirement and repair any damage caused by such removal.

ARTICLE VII ASSIGNMENT AND SUBLETTING

7.1 PROHIBITION

Notwithstanding any other provision of this Lease, Tenant shall not, directly or indirectly, assign, mortgage, pledge or otherwise transfer, voluntarily or involuntarily, this Lease or any interest herein or sublet (which term without limitation, shall include granting of concessions, licenses, and the like) or allow any other person or entity to occupy the whole or any part of the Premises, without, in each instance, having first received the express consent of Landlord, which consent shall not be unreasonably withheld. Any assignment of this Lease or subletting of the whole or any part of the

Premises (other than as permitted to a subsidiary or a controlling corporation as set forth below) by Tenant without Landlord's express consent shall be invalid, void and of no force or effect. Except as provided below in this Section 7.1, this prohibition includes, without limitation, any assignment, subletting, or other transfer which would occur by operation of law, merger, consolidation, reorganization, acquisition, transfer, or other change of Tenant's corporate or proprietary structure, including a change in the partners of any partnership, and the sale, pledge, or other transfer of any of the issued or outstanding capital stock of any corporate Tenant (unless such stock is publicly traded on a recognized security exchange or over-the-counter market). Any request for consent under this Section 7.1 shall set forth, in detail reasonably satisfactory to Landlord, the identification of the proposed assignee or sublessee, its financial condition and the terms on which the proposed assignment or subletting is to be made, including, without limitation, the rent or any other consideration to be paid in respect thereto and such request shall be treated as Tenant's warranty in respect of the information submitted therewith.

In any case where Landlord shall consent to any assignment or subletting, Tenant originally named herein shall remain fully liable for Tenant obligations hereunder, including, without limitation, the obligation to pay the rent and other amounts provided under this Lease and such liability shall not be affected in any way by any future amendment, modification, or extension of this Lease or any further assignment, other transfer, or subleasing and Tenant hereby irrevocably consents to any and all such transactions. Tenant agrees to pay to Landlord, within fifteen (15) days of billing therefor, all reasonable legal and other out-of-pocket expenses incurred by Landlord in connection with any request to assign or sublet not to exceed \$1,500. It shall be a condition of the validity of any permitted assignment or subletting that the assignee or sublessee agree directly with Landlord, in form satisfactory to Landlord, to be bound by all Tenant obligations hereunder, including, without limitation, the obligation to pay all Rent and other amounts provided for under this Lease and the covenant against further assignment or other transfer or subletting.

Without limiting Landlord's discretion to grant or withhold its consent to any proposed assignment or subletting as provided above, if Tenant requests Landlord's consent to assign this Lease or sublet all or any portion of the Premises, Landlord shall have the option, exercisable by notice to Tenant given within twenty (20) days after Landlord's receipt of such request, to terminate this Lease as of the date specified in such notice which shall be not less than thirty (30) nor more than sixty (60) days after the date of such notice for the entire Premises, in the case of an assignment or subletting of the whole, and for the portion of the Premises, in the case of a subletting of a portion, in which case Tenant is relieved of its obligations under this Lease. In the event of termination in respect of a portion of the Premises, the portion so eliminated shall be delivered to Landlord on the date specified in good order and condition in the manner provided in Section 8.1 at the end of the Lease Term and thereafter, to the extent necessary in Landlord's judgment, Landlord, at Tenant's sole cost and expense, may have access to and may make modification to the Premises so as to make such portion a self-contained rental unit with access to common areas, elevators and the like. Rent and

Tenant's Proportionate Share shall be adjusted according to the extent of the Premises for which this Lease is terminated. Without limitation of the rights of Landlord hereunder in respect thereto, if there is any assignment of this Lease by Tenant for consideration or a subletting of the whole of the Premises by Tenant at a rent which exceeds the rent payable hereunder by Tenant, or if there is a subletting of a portion of the Premises by Tenant at a rent in excess of the subleased portion's pro rata share of the Rent payable hereunder by Tenant, then Tenant shall pay to Landlord, as additional rent, forthwith upon Tenant's receipt of the consideration (or the cash equivalent thereof) therefor, in the case of an assignment, and in the case of a subletting, fifty percent (50%) of the amount of any such excess rent after deducting all sublease costs actually expended, including tenant improvements, free rent, brokerage commissions, and legal expenses. The provisions of this paragraph shall apply to each and every assignment of this Lease and each and every subletting of all or a portion of the Premises, whether to a subsidiary or controlling corporation of Tenant or any other person, firm or entity, in each case on the terms and conditions set forth herein. For the purposes of this Section 7.1, the term "rent" shall mean all rent, additional rent or other payments and/or consideration payable by one party to another for the use and occupancy of all or a portion of the Premises.

The requirement of Landlord's prior consent and Landlord's recapture right shall not, however, be applicable to an assignment of this Lease by Tenant to a subsidiary or successor (for such period of time as at least 50% of the stock of such subsidiary continues to be owned by Tenant, it being agreed that the subsequent sale or transfer of the stock of such subsidiary (either individually or in the aggregate) resulting in Tenant owning less than 50% of the stock of such subsidiary shall be treated as if such sale or transfer were, for all purposes, an assignment of this Lease governed by the provisions of this Section 7.1) or controlling corporation, provided (and it shall be a condition of the validity of any such assignment) that such subsidiary or controlling corporation agree directly with Landlord to be bound by all of the obligations of Tenant hereunder, including, without limitation, the obligation to pay the rent and other amounts provided for under this Lease, the covenant to use the Premises only for the purposes specifically permitted under this Lease and the covenant against further assignment; but such assignment shall not relieve Tenant herein named of any of its obligations hereunder, and Tenant shall remain fully liable therefor. Further, Landlord's consent shall not be required for an assignment of this Lease in connection with a transfer of substantially all operations of Tenant to another entity by way of merger, consolidation or sale of substantially all of the stock therein or assets thereof, provided that at the time of such assignment such entity has a net worth at least equal to that of Tenant or any guarantor on the date hereof or on the date of such assignment, whichever is greater.

7.2 ACCEPTANCE OF RENT FROM TRANSFEREE

The acceptance by Landlord of the payment of Rent, additional rent, or other charges following assignment, subletting, or other transfer prohibited by this Article VII shall not be deemed to be a consent by Landlord to any such assignment, subletting, or other transfer, nor shall the same constitute a waiver of any right or remedy of Landlord.

ARTICLE VIII
REPAIRS AND MAINTENANCE

8.1 TENANT OBLIGATIONS

From and after the date that possession of the Premises is delivered to Tenant and until the end of the Lease Term, Tenant shall keep the Premises and every part thereof in good order, condition, and repair, reasonable wear and tear and damage by casualty, as a result of condemnation, or as a result of the failure of Landlord to provide services required to be provided hereunder only excepted; and shall return the Premises to Landlord at the expiration or earlier termination of the Lease Term in such condition.

8.2 LANDLORD OBLIGATIONS

Except as may be provided in Articles XII and XIII, Landlord agrees to provide the services described in **Exhibit C** and to keep in good order, condition, and repair the structural components and the roof of the Building, the common utility and Building systems, the common hallways, entrances, restrooms and elevators, the paved surface of the parking areas serving the Building and the sprinkler system to the extent the same is located outside the Premises except that Tenant shall reimburse Landlord, as additional rent hereunder, for the costs of maintaining, repairing, or otherwise correcting any condition caused by an act, omission, neglect or default under this Lease of Tenant or any employee, agent, or contractor of Tenant or any other party for whose conduct Tenant is responsible. Without limitation, Landlord shall not be responsible to make any improvements or repairs other than as expressly provided in this Section 8.2 and in Exhibit E, and Landlord shall not be liable for any failure to make such repairs unless Tenant has given notice to Landlord of the need to make such repairs and Landlord has failed to commence to make such repairs within a reasonable time thereafter.

ARTICLE IX
SERVICES TO BE FURNISHED BY LANDLORD;

9.1 LANDLORD'S SERVICES

The Landlord agrees to cause the parking areas, driveways, and walkways on the Lot to be kept clear of accumulations of dirt, litter, rubbish, ice and snow, cause the landscaping on the Lot to be kept in a neat and attractive condition, keep the parking areas on the Lot lighted as necessary from the hours of 6:00 p.m. until 8:00 a.m. and perform its obligations with respect to maintenance and repair set forth in Section 8.2 above. Upon the request of Tenant from time to time, Landlord shall use reasonable efforts to provide services at hours other than the times set forth above and Tenant shall reimburse Landlord as additional rent for the cost of such services within thirty (30) days after invoice therefor. Landlord shall have no obligation to provide utilities or equipment other than the utilities and equipment within the Premises as of the Term Commencement Date of this Lease. Tenant shall not, without first having obtained Landlord's prior written consent, install or use any additional air-conditioning or heating equipment in the

Premises. In the event that Tenant should require additional utilities, appliances, machines or equipment, the installation, maintenance and costs thereof shall be Tenant's sole obligation, provided that any such installation shall require the written consent of Landlord, which consent Landlord shall not unreasonably withhold. Landlord hereby acknowledges and approves the appliances, supplemental HVAC, and equipment to be used within the Premises contained in Exhibit E.

9.2 CAUSES BEYOND CONTROL OF THE PARTIES

The Landlord and Tenant shall in no event be liable for failure to perform any of its obligations under this Lease, except for the payment of money, when prevented from doing so by causes beyond its reasonable control, including without limitation labor dispute, breakdown, accident, order or regulation of or by any governmental authority, or failure of supply, or inability by the exercise of reasonable diligence to obtain supplies, parts, or employees necessary to furnish services required under this Lease, or because of war or other emergency, or for any cause due to any act, neglect, or default of the other party or such other party's servants, contractors, agents, employees, licensees or any person claiming by, through or under Tenant. In no event shall Landlord ever be liable to Tenant nor shall Tenant ever be liable to Landlord (or any party claiming by or through Tenant or Landlord, respectively) for any indirect, special or consequential damages under the provisions of this Section 9.2 or any other provision of this Lease. If there is an interruption of utility service or other building services to the Premises due to the negligence or willful misconduct of Landlord or its agents, employees, or contractors that renders all or any portion of the Premises untenable for the Permitted Use hereunder and Tenant actually vacates all or any portion of the Premises and notifies Landlord thereof, then, commencing on the third business day after Tenant so vacates the Premises and notifies Landlord thereof, then, as Tenant's sole and exclusive remedy therefor, the Rent shall proportionately abate until such services are restored and Landlord gives Tenant notice thereof or Tenant reoccupies the Premises (or such vacated portion), whichever occurs first.

9.3 SEPARATELY METERED UTILITIES

Effective on the Term Commencement Date, Tenant shall pay directly to the utility, as they become due, all bills for electricity, gas, water and sewer, and other utilities (whether they are used for furnishing heat or for other purposes) that are furnished to the Premises and now or hereafter separately metered or billed by the utility to the Premises. If any utilities used or consumed by Tenant are not separately metered, Tenant shall pay its allocable share of such utilities, based on use or pro rata share of the meter, as determined by Landlord.

ARTICLE X
INDEMNITY

10.1 THE TENANT'S INDEMNITY

The Tenant shall indemnify and save harmless Landlord, the directors, officers, agents, and employees of Landlord, against and from all claims, expenses, or liabilities of whatever nature (a) arising directly or indirectly from any default or breach by Tenant or Tenant's contractors, licensees, agents, servants, or employees under any of the terms or covenants of this Lease (including without limitation any violation of Landlord's Rules and Regulations and any failure to maintain or repair equipment or installations to be maintained or repaired by Tenant hereunder) or the failure of Tenant or such persons to comply with any rule, order, regulation, or lawful direction now or hereafter in force of any public authority, in each case to the extent the same are related, directly or indirectly, to the Premises or the Building, or Tenant's use thereof; or (b) arising directly or indirectly from any accident, injury, or damage, however caused, to any person or property, on or about the Premises; or (c) arising directly or indirectly from any accident, injury, or damage to any person or property occurring outside the Premises but within the Building or on the Lot, where such accident, injury, or damage results, or is claimed to have resulted, from any act, omission, or negligence on the part of Tenant, or Tenant's contractors, licensees, agents, servants, employees, or customers, or anyone claiming by or through Tenant: provided, however, that in no event shall Tenant be obligated under this clause (c) to indemnify Landlord, the directors, officers, agents, employees of Landlord, to the extent such claim, expense, or liability results from any omission, fault, negligence, or other misconduct of Landlord or the officers, agents, or employees of Landlord on or about the Premises or the Building.

This indemnity and hold harmless agreement shall include, without limitation, indemnity against all expenses, attorney's fees and liabilities incurred in connection with any such claim or proceeding brought thereon and the defense thereof with counsel acceptable to Landlord. At the request of Landlord, Tenant shall defend any such claim or proceeding directly on behalf and for the benefit of Landlord. If seeking indemnity hereunder, Landlord shall give Tenant prompt notice of the claim or proceeding, Landlord shall allow Tenant to have sole control over the conduct of the defense and shall reasonably cooperate with Tenant in such defense.

10.2 THE TENANT'S RISK

The Tenant agrees to use and occupy the Premises and to use such other portions of the Building and the Lot as Tenant is herein given the right to use at Tenant's sole risk; and Landlord shall have no responsibility or liability for any loss or damage, however caused, to furnishings, fixtures, equipment, or other personal property of Tenant or of any persons claiming by, through, or under Tenant unless to the extent such damage or loss is caused by Landlord's gross negligence.

10.3 INJURY CAUSED BY THIRD PARTIES

The Tenant agrees that Landlord shall not be responsible or liable to Tenant, or to those claiming by, through, or under Tenant, for any loss or damage resulting to Tenant or those claiming by, through, or under Tenant, or its or their property, that may be occasioned by or through the acts or omissions of persons occupying any part of the Building, or for any loss or damage from the breaking, bursting, crossing, stopping, or leaking of electric cables and wires, and water, gas, sewer, or steam pipes, or like matters.

10.4 SECURITY

Tenant agrees that, in all events, Tenant is responsible for providing security to the Premises and its own personnel, and that Landlord shall have no obligation to provide security to the Premises, Building, Lot, or the City of Lowell parking garage providing parking to the Premises. Notwithstanding the foregoing, Landlord agrees to provide and maintain the security systems listed in Exhibit C hereto, it being agreed that by doing so, Landlord is not assuming any obligation or liability regarding security nor is Landlord guaranteeing the efficacy of such systems.

ARTICLE XI INSURANCE

11.1 PUBLIC LIABILITY INSURANCE

The Tenant agrees to maintain in full force from the date upon which Tenant first enters the Premises for any reason, throughout the Lease Term, and thereafter so long as Tenant is in occupancy of any part of the Premises, (a) a policy of commercial general liability insurance, written on an occurrence basis and including contractual liability coverage to cover any liabilities assumed under this Lease, insuring against all claims for injury to or death of persons or damage to property on or about the Premises or arising out of the use of the Premises, including products liability, and completed operations liability, and (b) automobile liability insurance covering all owned vehicles, hired vehicles, and all other non-owned vehicles. Each such policy shall designate Tenant as a named insured and Landlord, its managing agent, if any, and any mortgagees (as may be set forth in a notice given from time to time by Landlord) shall be named as additional insureds, as their interests appear.

Each such policy shall expressly provide that it shall not expire or canceled without at least thirty (30) days' prior written notice to Landlord in each instance and that the interests of Landlord thereunder or therein shall not be affected by any breach by Tenant of any policy provision, and a duplicate original or certificate thereof shall be delivered to Landlord. The minimum limits of liability of such insurance shall be bodily injury and property damage combined single limit of \$3,000,000 per occurrence. The required limit may be attained through Commercial Umbrella Liability coverage. The Landlord shall have the right from time to time to increase such minimum limits upon

notice to Tenant, provided that any such increase shall provide for coverage in amounts similar to like coverage being carried on like property in the greater Boston area.

11.2 HAZARD INSURANCE

The Tenant agrees to maintain in full force from the date upon which Tenant first enters the Premises for any reason, throughout the Lease Term, and thereafter so long as Tenant is in occupancy of any part of the Premises, a policy insuring any leasehold improvements paid for by Tenant and all fixtures, equipment, and other personal property of Tenant against damage or destruction by fire or other casualty in an amount equal to the full replacement cost of such property. Tenant shall also maintain insurance against such other hazards as may from time to time reasonably be required by Landlord or the holder of any mortgage on the Premises, provided that such insurance is customarily carried in the area in which the Premises are located on property similar to the Building and that Tenant receives written notice specifying all such additional insurance as may be required. At Landlord's request, any such policies of insurance shall name any such mortgagee as loss payee under a standard mortgagee's clause.

Notwithstanding the foregoing, Tenant shall be permitted to self-insure its fixtures, equipment and other personal property from time to time located in, on or about the Premises, and all leasehold improvements to the Premises constructed or installed by Tenant, provided that at all times when Tenant so self-insures the same or any portion thereof, Tenant's net worth shall be and remain at least Twenty Million and 00/100 Dollars (\$20,000,000.00). During all periods in which Tenant so self-insures any of the same, the rights and obligations of Landlord and Tenant shall remain the same as if Tenant shall have purchased and kept in force thereon insurance from an independent, institutional insurer of recognized responsibility, and, without limitation, the provisions of Sections 10.2 and 11.5 of this Lease shall remain in full force and effect. The Tenant represents, by so self-insuring, that Tenant then is financially able to absorb any loss thereto without significant reduction of available capital or any other material, adverse effect on Tenant or its business operations, and that Tenant then is of at least such minimum net worth.

The Landlord shall maintain in full force throughout the Lease Term a policy of insurance upon the Building and its fixtures and equipment.

11.3 CONSTRUCTION PERIOD INSURANCE

At any time when demolition or construction work is being performed on or about the Premises or Building by or on behalf of Tenant, the Tenant shall keep in full force and effect the following insurance coverage:

(1) builder's risk completed value (non-reporting form) in such form and affording such protections as required by Landlord, naming Landlord and its mortgagees as additional insureds; and

(2) workers' compensation or similar insurance in form and amounts required by law.

Tenant shall cause a certificate or certificates of such insurance to be delivered to Landlord prior to the commencement of any work in or about the Building or the Premises, in default of which Landlord shall have the right, but not the obligation, to obtain any or all such insurance at the expense of Tenant, in addition to any other right or remedy of Landlord. The provisions of this §11.3 shall survive the expiration or earlier termination of this Lease.

11.4 RENTAL ABATEMENT INSURANCE

The Landlord shall keep and maintain in full force and effect during the Lease Term rental abatement insurance against abatement or loss of Rent in case of fire or other casualty, in an amount at least equal to the amount of the Rent payable by Tenant during the then current lease year as reasonably determined by Landlord. All premiums for such insurance shall be included in Operating Costs for the purposes of this Lease.

11.5 WAIVER OF SUBROGATION

Insofar as and to the extent that the following provisions may be effective without invalidating or making it impossible to secure insurance coverage from responsible insurance companies doing business in The Commonwealth of Massachusetts (even though extra premium may result therefrom): Landlord and Tenant mutually agree that with respect to any loss which is covered by insurance then being carried by them, the one carrying such insurance and suffering said loss releases the other of and from any and all claims with respect to such loss; and they further mutually agree that their insurance companies shall have no right of subrogation against the other on account thereof. In the event that an additional premium is payable by either party as a result of this provision, the other party shall reimburse the party paying such premium the amount of such extra premium. If, at the written request of one party, this release and non-subrogation provision is waived, then the obligation of reimbursement shall cease for such period of time as such waiver shall be effective, but nothing contained in this Section shall be deemed to modify or otherwise affect any releases elsewhere contained in this Lease.

ARTICLE XII CASUALTY

12.1 DEFINITION OF "SUBSTANTIAL DAMAGE" AND "PARTIAL DAMAGE"

The term "substantial damage", as used herein, shall refer to damage which is of such a character that in Landlord's reasonable, good faith estimate the same cannot, in ordinary course, be expected to be repaired within 60 calendar days from the time that such repair work would commence. Any damage which is not "substantial damage" is "partial damage".

12.2 PARTIAL DAMAGE TO THE BUILDING

If during the Lease Term there shall be partial damage to the Building by fire or other casualty and if such damage shall materially interfere with Tenant's use of the Premises as contemplated by this Lease, Landlord shall promptly proceed to restore the Building to substantially the condition in which it was immediately prior to the occurrence of such damage.

12.3 SUBSTANTIAL DAMAGE TO THE BUILDING

If during the Lease Term there shall be substantial damage to the Building by fire or other casualty and if such damage shall materially interfere with Tenant's use of the Premises as contemplated by this Lease, Landlord shall promptly restore the Building to the extent reasonably necessary to enable Tenant's use of the Premises, unless Landlord, within sixty (60) days after the occurrence of such damage, shall give notice to Tenant of Landlord's election to terminate this Lease. The Landlord shall have the right to make such election in the event of substantial damage to the Building whether or not such damage materially interferes with Tenant's use of the Premises. If 50% of the Premises is damaged to a point where such space is unoccupiable, Tenant shall have the right to terminate the lease with forty five (45) days' notice to Landlord. If Landlord shall give such notice, then this Lease shall terminate as of the date of such notice with the same force and effect as if such date were the date originally established as the expiration date hereof. If Landlord has not restored the Premises to the extent required under this Section 12.3 within nine (9) months after the date of such damage or destruction, such nine-month period to be extended to the extent of any delays of the completion of such restoration due to matters beyond Landlord's reasonable control, or if the Premises shall be substantially damaged during the last nine (9) months of the Lease Term then, in either such case, Tenant may elect to terminate this Lease, in its entirety, by giving written notice of such election to Landlord as soon as the Parties are aware that the Premises will not be materially restored within such nine month period, but in no event later than within thirty (30) days after the end of such nine-month period and before the substantial completion of such restoration. If Tenant so elects to terminate this Lease, then this Lease and the term hereof shall cease and come to an end on the date that is thirty (30) days after the date that Landlord receives Tenant's termination notice, unless on or before such date Landlord has substantially completed such restoration.

12.4 ABATEMENT OF RENT

If during the Lease Term the Building shall be damaged by fire or casualty and if such damage shall materially interfere with Tenant's use of the Premises as contemplated by this Lease, a just proportion of the Base Rent payable by Tenant hereunder shall abate proportionately for the period in which, by reason of such damage, there is such interference with Tenant's use of the Premises, having regard to the extent to which Tenant may be required to discontinue Tenant's use of the Premises, but such abatement or reduction shall end if and when Landlord shall have substantially restored the Premises or so much thereof as shall have been originally constructed by Landlord (exclusive of

any of Tenant's fixtures, furnishings, equipment and the like or work performed therein by Tenant) to substantially the condition in which the Premises were prior to such damage.

12.5 MISCELLANEOUS

In no event shall Landlord have any obligation to make any repairs or perform any restoration work under this Article XII if prevented from doing so by reason of any cause beyond its reasonable control, including, without limitation, the requirements of any applicable laws, codes, ordinances, rules, or regulations, the refusal of the holder of a mortgage or ground lease affecting the premises to make available to Landlord the net insurance proceeds attributable to such restoration, or the inadequacy of such proceeds to fund the full cost of such repairs or restoration, but reasonably promptly after Landlord ascertains the existence of any such cause, it shall either terminate this Lease or waive such condition to its restoration obligations and proceed to restore the Premises as otherwise provided herein. Further, Landlord shall not be obligated in any event to make any repairs or perform any restoration work to any alterations, additions, or improvements to the Premises performed by or for the benefit of Tenant (all of which Tenant shall repair and restore) or to any fixtures in or portions of the Premises or the Building which were constructed or installed by or for some party other than Landlord or which are not the property of Landlord.

ARTICLE XIII EMINENT DOMAIN

13.1 RIGHTS OF TERMINATION FOR TAKING

If the Premises, or such portion thereof as to render the balance (if reconstructed to the maximum extent practicable in the circumstances) physically unsuitable for Tenant's purposes, shall be taken (including a temporary taking in excess of 180 days) by condemnation or right of eminent domain or sold in lieu of condemnation, Landlord or Tenant may elect to terminate this Lease by giving notice to the other of such election not later than thirty (30) days after Tenant has been deprived of possession.

Further, if so much of the Building (which may include the Premises) or the Lot shall be so taken, condemned or sold or shall receive any direct or consequential damage by reason of anything done pursuant to public or quasi-public authority such that continued operation of the same would, in Landlord's opinion, be uneconomical, Landlord may elect to terminate this Lease by giving notice to Tenant of such election not later than thirty (30) days after the effective date of such taking.

Should any part of the Premises be so taken or condemned or receive such damage and should this Lease be not terminated in accordance with the foregoing provisions, Landlord shall promptly after the determination of Landlord's award on account thereof, expend so much as may be necessary of the net amount which may be

awarded to Landlord in such condemnation proceedings in restoring the Premises to an architectural unit that is reasonably suitable to the uses of Tenant permitted hereunder. Should the net amount so awarded to Landlord be insufficient to cover the cost of so restoring the Premises, in the reasonable estimate of Landlord, Landlord may, but shall have no obligation to, supply the amount of such insufficiency and restore the Premises to such an architectural unit, with all reasonable diligence, or Landlord may terminate this Lease by giving notice to Tenant within a reasonable time after Landlord has determined the estimated cost of such restoration.

13.2 PAYMENT OF AWARD

The Landlord shall have and hereby reserves and excepts, and Tenant hereby grants and assigns to Landlord, all rights to recover for damages to the Building and the Lot and the leasehold interest hereby created, and to compensation accrued or hereafter to accrue by reason of such taking or damage, as aforesaid. The Tenant covenants to deliver such further assignments and assurances thereof as Landlord may from time to time request. Nothing contained herein shall be construed to prevent Tenant from prosecuting in any condemnation proceedings a claim for the value of any of Tenant's trade fixtures installed in the Premises by Tenant at Tenant's expense and for relocation expenses, provided that such action shall not affect the amount of compensation otherwise recoverable hereunder by Landlord from the taking authority.

13.3 ABATEMENT OF RENT

In the event of any such taking of the Premises, the Base Rent or a fair and just proportion thereof, according to the nature and extent of the damage sustained, shall be suspended or abated, as appropriate and equitable in the circumstances.

13.4 MISCELLANEOUS

In no event shall Landlord have any obligation to make any repairs under this Article XIII if prevented from doing so by reason of any cause beyond its reasonable control, including, without limitation, requirements of any applicable laws, codes, ordinances, rules, or regulations or requirements of any mortgagee. Further, Landlord shall not be obligated to make any repairs to any portions of the Premises or the Building which were constructed or installed by or for some party other than Landlord or which are not the property of Landlord.

ARTICLE XIV

14.1 TENANT'S DEFAULT

(a) If at any time any one or more of the following events (herein referred to as a "Default of Tenant") shall occur:

(i) Tenant shall fail to make payment of rent or any other monetary amount due under this lease within five (5) days after Landlord has sent to Tenant notice of such default.

However, if: (A) Landlord shall have sent to Tenant a notice of such default, even though the same shall have been cured and this Lease not terminated; and (B) during the lease year in which said notice of default has been sent by Landlord to Tenant, Tenant thereafter shall default in any monetary payment, the same shall be deemed to be a Default of Tenant upon Landlord giving Tenant written notice thereof, without the five (5) day grace period set forth above; or

(ii) Tenant shall fail to perform or observe any other covenant or provision herein contained on Tenant's part to be performed or observed and Tenant shall fail to remedy the same within thirty (30) days after notice to Tenant specifying such neglect or failure, or, if such failure is of such a nature that Tenant cannot reasonably remedy the same within such thirty (30) day period, Tenant shall fail to commence promptly to remedy the same and to prosecute such remedy to completion with diligence and continuity.

However, if (A) Landlord shall have sent to Tenant a notice of such default, even though the same shall have been cured and this Lease not terminated; and (B) during the lease year in which said notice of default have been sent by Landlord to Tenant, Tenant thereafter shall default in any non-monetary matter, the same shall be deemed to be a Default of Tenant upon Landlord giving Tenant written notice thereof, and Tenant shall have no grace period within which to cure the same; or

(iii) except as otherwise provided by applicable law, if the estate hereby created shall be taken on execution or by other process of law, or if Tenant shall be judicially declared bankrupt or insolvent according to law, or if any assignment shall be made of the property of Tenant for the benefit of creditors, or if a receiver, guardian, conservator, trustee in involuntary bankruptcy or other similar officer shall be appointed to take charge of all or any substantial part of Tenant's property by a court of competent jurisdiction, or if a petition shall be filed for the reorganization of Tenant under any provisions of law now or hereafter enacted, and such proceeding is not dismissed within sixty (60) days after it is begun, or if Tenant shall file a petition for such reorganization, or for arrangements under any provisions of such laws providing a plan for a debtor to settle, satisfy, or extend the time for the payment of debts; or

(iv) Tenant shall vacate or abandon the Premises, then, in any such case, Landlord may, in addition to any remedies otherwise available to Landlord, immediately or at any time thereafter, and without demand or notice, enter into and upon the Premises or any part thereof in the name of the whole and repossess the same as of Landlord's former estate, and expel Tenant and those claiming by, through or under it and remove its or their effects (forcibly if necessary) without being deemed guilty of any manner of trespass, and without prejudice to any remedies which might otherwise be used for arrears of rent or preceding breach of covenant and/or Landlord may terminate this

Lease by notice to Tenant and this Lease shall come to an end on the date of such notice as fully and completely as if such date were on the date herein originally fixed for the expiration of the term of this Lease (Tenant hereby waiving any rights of redemption, if any, under M.G.L.A. c. 186, §11 to extent that such rights may be lawfully waived), and Tenant will then quit and surrender the Premises to Landlord, but Tenant shall remain liable as herein provided. To the extent permitted by law, Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed, or in the event of Landlord obtaining possession of the Premises, by reason of the violation by Tenant of any of the covenants and conditions of this Lease. In the event of any such termination, entry or re-entry, Landlord shall have the right to remove and store Tenant's property and that of persons claiming by, through or under Tenant at the sole risk and expense of Tenant and, if Landlord so elects, (x) to sell such property at public auction or private sale and apply the net proceeds to the payment of all sums due to Landlord from Tenant and pay the balance, if any, to Tenant, or (y) to dispose of such property in any manner in which Landlord shall elect, Tenant hereby agreeing to the fullest extent permitted by law that it shall have no right, title or interest in any property remaining in the Premises after such termination, entry or re-entry.

(b) Tenant covenants and agrees, notwithstanding any termination of this Lease as aforesaid or any entry or re-entry by Landlord, whether by summary proceedings, termination, or otherwise, to pay and be liable for on the days originally fixed herein for the payment thereof, amounts equal to the several installments of Rent and other charges reserved as they would become due under the terms of this Lease if this Lease had not been terminated or if Landlord had not entered or re-entered, as aforesaid, and whether the Premises be relet or remain vacant, in whole or in part, or for a period less than the remainder of the Term, or for the whole thereof; but in the event the Premises be relet by Landlord, Tenant shall be entitled to a credit in the net amount of rent received by Landlord in reletting, after deduction of all expenses incurred in reletting the Premises (including, without limitation, remodeling costs, brokerage fees, attorneys' fees and the like), and in collecting the rent in connection therewith. In lieu of any other damages or indemnity and in lieu of full recovery by Landlord of all sums payable under all the foregoing provisions of this Section 14.1 (b), Landlord may by written notice to Tenant, at any time after this Lease is terminated under any of the provisions contained in Section 14.1 or is otherwise terminated for breach of any obligation of Tenant and before such full recovery, elect to recover, and Tenant shall thereupon pay, as liquidated damages, an amount equal to twelve times the aggregate of the Base Rent and additional rent accrued under Sections 4.1, 4.2, and 4.3 in the one calendar month ended next prior to such termination plus the amount of Base Rent and additional rent of any kind accrued and unpaid at the time of termination and less the amount of any recovery by Landlord under the foregoing provision of this Section 14.1 (b) up to the time of payment of such liquidated damages.

(c) In case of any Default of Tenant, re-entry, entry, expiration and dispossession by summary proceedings or otherwise, Landlord may (i) re-let the Premises or any part or parts thereof, either in the name of Landlord or otherwise, for a term or

terms which may at Landlord's option be equal to or less than or exceed the period which would otherwise have constituted the balance of the Lease Term and may grant concessions or free rent to the extent that Landlord considers advisable or necessary to re-let the Premises and (ii) make such alterations, repairs and decorations in the Premises as Landlord, in its sole judgment, considers advisable or necessary for the purpose of reletting the Premises; and no action by Landlord in accordance with the foregoing shall operate or be construed to release Tenant from liability hereunder as aforesaid. It is specifically understood and agreed that Landlord shall be entitled to take into account in connection with any reletting of the Premises all relevant factors which would be taken into account by a sophisticated developer in securing a replacement tenant for the Premises, such as, but not limited to, the first class quality of the Building and the financial responsibility of any such replacement tenant. Landlord shall in no event be liable in any way whatsoever for failure to re-let the Premises, or, in the event that the Premises are re-let, for failure to collect the rent under such re-letting, and Tenant hereby waives, to the extent permitted by applicable law, any obligation Landlord may have to mitigate Tenant's damages. The Landlord agrees to list the Premises with a broker in the event of a termination, entry or re-entry under this ARTICLE XIV, provided that Landlord's obligation to list the Premises as provided herein is independent of Tenant's obligations under this ARTICLE XIV and shall not be construed to entitle Tenant to set-off against any amounts payable by Tenant hereunder in the event of a breach or alleged breach by Landlord of such obligation. In no event shall Landlord be obligated to give priority to the re-letting of the Premises over any other Premises in the Building or any other building owned by Landlord.

(d) If there is at any time a guarantor or assignee of this Lease or any interest of Tenant herein or any sublessee, franchisee, concessionee, or licensee of all or any portion of the Premises, the happening of any of the events described in paragraph (a)(iii) of this Section with respect to such guarantor, assignee, sublessee, franchisee, concessionee, or licensee shall constitute a Default of Tenant hereunder.

(e) The specified remedies to which Landlord may resort hereunder are not intended to be exclusive of any remedies or means of redress to which Landlord may, at any time, be entitled lawfully and Landlord may invoke any remedy (including the remedy of specific performance) allowed at law or in equity as if specific remedies were not herein provided for.

(f) All costs and expenses incurred by or on behalf of Landlord (including, without limitation, attorneys' fees and expenses) in enforcing its rights hereunder or occasioned by any Default of Tenant shall be paid by Tenant.

Nothing contained in this Lease shall limit or prejudice the right of Landlord to prove for and obtain in proceedings for bankruptcy, insolvency, or like proceedings by reason of the termination of this Lease, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater than, equal to, or less than the amount of the loss or damages referred to above.

14.2 LANDLORD'S DEFAULT

Landlord shall in no event be in default in the performance of any of Landlord's obligations hereunder unless and until Landlord shall have failed to perform such obligations within thirty (30) days, or such additional time as is reasonably required to correct any such default, (if Landlord commences promptly to remedy the same and to prosecute such remedy to completion with diligence and continuity) after notice by Tenant to Landlord specifying wherein Landlord has failed to perform any such obligation.

ARTICLE XV THE LANDLORD'S ACCESS TO PREMISES

15.1 THE LANDLORD'S RIGHT OF ACCESS

The Landlord and its agents, contractors, and employees shall have the right to enter the Premises at all reasonable hours upon reasonable advance notice, except in exigent circumstances, or any time in case of emergency, for the purpose of inspecting or of making repairs or alterations, to the Premises or the Building or additions to the Building, and Landlord shall also have the right to make access available at all reasonable hours to prospective or existing mortgagees or purchasers of any part of the Building. To assure access by Landlord to the Premises, Tenant shall provide Landlord with duplicate copies of all keys used by Tenant in providing access to the Premises.

For a period commencing twelve (12) months prior to the expiration of the Lease Term, Landlord may have reasonable access to the Premises at all reasonable hours for the purpose of exhibiting the same to prospective tenants.

ARTICLE XVI RIGHTS OF MORTGAGEES

16.1 SUBORDINATION AND ATTORNMENT

(a) If any holder of a mortgage or holder of a ground lease of property which includes the Premises, executed and recorded subsequent to the date of this Lease, shall so elect, the interest of Tenant hereunder shall be subordinate to the rights of such holder, provided that such holder shall agree to recognize in writing the rights of Tenant under this Lease upon the terms and conditions set forth herein, and the performance by Tenant of Tenant's obligations hereunder (but without any assumption by such holder of Landlord's obligations under this Lease); or

(b) If any holder of a mortgage or holder of a ground lease of property which includes the Premises executed and recorded prior to the date of this Lease shall so elect,

this Lease, and the rights of Tenant hereunder, shall be superior in right to the rights of such holder, with the same force and effect as if this Lease had been executed and delivered, and recorded, or a statutory notice hereof recorded, prior to the execution, delivery and recording of any such mortgage.

The election of any such holder as to Subsection (a) above shall be exercised by notice to Tenant, in the same fashion as notices under this Lease are given by Landlord to Tenant, and, if such notice is given, such subordination shall be effective as to all advances then or thereafter made by such holder under such mortgage or in connection with such ground lease. Any election as to Subsection (b) above shall become effective upon either notice from such holder to Tenant in the same fashion as notices from Landlord to Tenant are to be given hereunder or by the recording in the appropriate registry or recorder's office of an instrument, in which such holder subordinates its rights under such mortgage or ground lease to this Lease.

(c) Forthwith upon the request of Landlord, the holder of any mortgage or deed of trust affecting the Premises, or the lessor under any ground lease affecting the Premises, Tenant shall execute and deliver to such party an attornment agreement providing that Tenant shall attorn to such holder or lessor in the event of a foreclosure of such mortgage or deed of trust or transfer in lieu thereof or a termination of such ground lease and incorporating such other terms and conditions as such party may reasonably require, provided that such agreement includes an agreement by such other party to recognize the rights of Tenant under this Lease. Irrespective of whether any such attornment agreement has been executed, Tenant shall, in the event any proceedings are brought for the foreclosure of, or in the event of exercise of the power of sale under, any mortgage or deed of trust made by Landlord, its successors or assigns, encumbering the Premises, or any part thereof, or in the event of termination of any ground lease, if so requested, attorn to the purchaser or ground lessor upon such foreclosure, sale or termination or upon any grant of a deed in lieu of foreclosure and recognize such purchaser or ground lessor as Landlord under this Lease.

(d) Tenant agrees on request of Landlord to execute and deliver from time to time any instrument that Landlord may reasonably deem necessary to implement the provisions of this Section 16.1.

(e) Landlord shall cause any future holders of any mortgage or junior financing encumbering the Building or the Lot to execute and deliver to Tenant, at Tenant's sole expense, a commercially reasonable subordination, attornment and non-disturbance agreement in form and content acceptable to that lender.

16.2 NOTICE TO MORTGAGEE AND GROUND LESSOR; OPPORTUNITY TO CURE

After receiving notice from any person, firm, or other entity (or from Landlord on behalf of any such person, etc.) that it holds a mortgage which includes the Premises as part of the mortgaged premises, or that it is the ground lessor under a lease with Landlord

as ground lessee, which includes the Premises as a part of the demised premises, no notice from Tenant to Landlord shall be effective unless and until a copy of the same is given to such holder or ground lessor, and the curing of any of Landlord's defaults by such holder or ground lessor shall be treated as performance by Landlord. Accordingly, no act or failure to act on the part of Landlord which would entitle Tenant under the terms of this Lease, or by law, to be relieved of Tenant's obligations hereunder shall have such an effect unless and until:

(a) Tenant shall have first given written notice to such holder or ground lessor, if any, specifying the act or failure to act on the part of Landlord which could or would give basis to Tenant's rights; and

(b) such holder or ground lessor, after receipt of such notice, has failed or refused to correct or cure the condition complained of within a reasonable time thereafter, but nothing contained in this Section 16 or elsewhere in this Lease shall be deemed to impose any obligation on any such holder or ground lessor to correct or cure any such condition

16.3 ASSIGNMENT OF RENTS.

With reference to any assignment by Landlord of Landlord's interest in this Lease, or the rents payable hereunder, conditional in nature or otherwise, which assignment is made to the holder of a mortgage or ground lease on property which includes the Premises, Tenant agrees:

- (a) that the execution thereof by Landlord, and the acceptance thereof by the holder of such mortgage, or the ground lessor, shall never be treated as an assumption by such holder or ground lessor of any of the obligations of Landlord hereunder, unless such holder or ground lessor shall, by notice sent to Tenant, specifically otherwise elect; and
- (b) that, except as aforesaid, such holder or ground lessor shall be treated as having assumed Landlord's obligations hereunder only upon foreclosure of such holder's mortgage and the taking of possession of the Premises, or in the case of a ground lessor, the assumption of Landlord's position hereunder by such ground lessor.

ARTICLE XVII MISCELLANEOUS PROVISIONS

17.1 CAPTIONS

The captions throughout this Lease are for convenience or reference only and shall in no way be held or deemed to define, limit, explain, describe, modify, or add to the interpretation, construction, or meaning of any provision of this Lease.

17.2 BIND AND INURE

Except as herein otherwise expressly provided, the obligations of this Lease shall run with the land, and this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. The reference herein to successors and assigns of Tenant is not intended to constitute a consent to assignment by Tenant, but has reference only to those instances in which Landlord may later give consent to a particular assignment as required by the provisions of Article VII. Neither the assignment by Landlord of its interest in this Lease as security to a lender holding a mortgage on the Building, nor the acceptance thereof by such lender, nor the exercise by such lender of any of its rights pursuant to said assignment shall be deemed in any way an assumption by such lender of any of the obligations of Landlord hereunder unless such lender shall specifically otherwise elect in writing or unless such lender shall have completed foreclosure proceedings under said mortgage. Whenever the Premises are owned by a trustee or trustees, the obligations of Landlord shall be binding upon Landlord's trust estate, but not upon any trustee, beneficiary or shareholder of the trust individually.

17.3 YIELD-UP

At the expiration of the Lease Term or earlier termination of this Lease, Tenant shall peaceably give up and surrender the Premises without the requirement of any notice, including all work performed by Tenant (such work to be in conformity with the provisions hereof) and all replacements thereof, including carpeting, any water or electricity meters, and all fixtures and work (including partitions) in any way bolted or otherwise attached to the Premises (which shall become the property of Landlord) except such non-building standard equipment, data and communication cables and wiring, fixtures, work and the like as Landlord shall direct Tenant to remove, the Premises and improvements to be in good order, repair and condition, damage by fire casualty and reasonable wear excepted. Tenant shall, at the time of termination, remove the goods, effects and fixtures which Tenant is directed or permitted to remove in accordance with the provisions of this Section, making any repairs to the Premises and other areas necessitated by such removal and leaving the Premises clean and tenantable. Should Tenant fail to remove any of such good, effect, and fixtures, Landlord may have them removed forcibly, if necessary, and store any of Tenant's property in a public warehouse at the risk of Tenant: the expense of such removal, storage and reasonable repairs necessitated by such removal shall be borne by Tenant or reimbursed by Tenant to Landlord.

17.4 NO WAIVER

The failure of Landlord or of Tenant to seek redress for violation of, or to insist upon the strict performance of any covenant or condition of this Lease shall not be deemed to be a waiver of such violation or to prevent a subsequent act, which would originally have constituted a violation, from having all the force and effect of an original

violation. The receipt by Landlord of Rent or additional rent with knowledge of the breach of any covenant of this Lease shall not be deemed to be a waiver of such breach by Landlord unless such waiver be in writing signed by Landlord. No consent or waiver, express or implied, by Landlord or Tenant to or of any breach of any agreement or duty shall be construed as a waiver or consent to or of any other breach of the same or any other agreement or duty.

17.5 NO ACCORD AND SATISFACTION

No acceptance by Landlord of a lesser sum than the minimum and additional rent then due shall be deemed to be other than on account of the earliest installment of such rent due, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed to be an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such installment or pursue any other remedy in this Lease or at law or in equity provided.

17.6 CUMULATIVE REMEDIES

The specific remedies to which Landlord may resort under the terms of this Lease are cumulative and not intended to be exclusive of any other remedies or means of redress to which it may be lawfully entitled in case of any breach or threatened breach by Tenant of any provisions of this Lease. In addition to the other remedies provided in this Lease, Landlord shall be entitled to the restraint by injunction of the violation or attempted or threatened violation of any of the covenants, conditions or provisions of this Lease or to a decree compelling specific performance of any such covenants, conditions or provisions. Except as otherwise set forth herein, any obligations of Tenant as set forth herein (including, without limitation, rental and other monetary obligations, repair obligations and obligations to indemnify Landlord) shall survive the expiration or earlier termination of this Lease, and Tenant shall immediately reimburse Landlord for any expense incurred by Landlord in curing Tenant's failure to satisfy any such obligation (notwithstanding the fact that such cure might be effected by Landlord following the expiration or earlier termination of this Lease).

17.7 PARTIAL INVALIDITY

If any term or provision of this Lease or any portion thereof or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, then the remainder of this Lease and of such term or provision and the application of this Lease and of such term and provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each term of this Lease shall be valid and enforceable to the fullest extent permitted by law.

17.8 LANDLORD'S RIGHT TO CURE

If Tenant shall at any time default in the performance of any obligation under this Lease, Landlord shall have the right, but not the obligation, to enter upon the Premises and/or to perform such obligation, notwithstanding the fact that no specific provision for such substituted performance by Landlord is made in this Lease with respect to such default. In performing any such obligations, Landlord may make any payment of money or perform any other act. All sums so paid by Landlord (together with interest at the Lease Interest Rate) and all necessary incidental costs and expenses in connection with the performance of any such act by Landlord, shall be deemed to be additional rent under this Lease and shall be payable to Landlord immediately on demand. Landlord may exercise the foregoing rights without waiving any other of its rights or releasing Tenant from any of its obligations under this Lease.

17.9 ESTOPPEL CERTIFICATES

Tenant agrees on the Commencement Date of the Lease Term and from time to time thereafter, upon not less than fifteen (15) days' prior written request by Landlord, to execute, acknowledge and deliver to Landlord a statement in writing, certifying that this Lease is unmodified and in full force and effect, that Tenant has no defenses, offsets or counterclaims against its obligations to pay rent and other charges required under this Lease and to perform its other covenants under this Lease and that there are no uncured defaults of Landlord or Tenant under this Lease (or, if there have been any modifications, that this Lease is in full force and effect, as modified, and stating the modifications, and, if there are any defenses, offsets, counterclaims or defaults, setting them forth in reasonable detail), and the dates to which the Rent and other charges have been paid. Any such statement delivered pursuant to this Section 17.8 may be relied upon by any prospective purchaser or mortgagee of the property which includes the Premises or any prospective assignee of any such mortgagee.

17.10 BROKERAGE

Each party hereto warrants and represents that it has dealt with no real estate broker or agent other than Jones Lang LaSalle and Farley White Management Company (the "Brokers") in connection with this transaction and agrees to defend, indemnify and save the other party harmless from and against any and all claims for commissions or fees arising out of this Lease which, as to the respective parties, are inconsistent with such party's warranties and representations. Landlord shall be responsible for any commissions or fees owed to the Brokers in connection with this transaction.

17.11 ENTIRE AGREEMENT

All negotiations, considerations, representations, and understandings between Landlord and Tenant are incorporated herein and this Lease expressly supersedes any proposals or other written documents relating hereto. This Lease may be modified or altered only by written agreement between Landlord and Tenant, and no act or omission

of any employee or agent of Landlord shall alter, change, or modify any of the provisions hereof.

17.12 HOLDOVER

If Tenant remains in the Premises after the termination or expiration of the Lease Term, such holding over shall not be deemed to create any tenancy, except as Landlord may elect pursuant to the next sentence, but Tenant shall be a tenant at sufferance, at a monthly fixed rent equal to 150% the Base Rent applicable immediately prior to such termination or expiration plus the then applicable additional rent and other charges under this Lease. If Landlord so elects by notice to Tenant during any holdover period, Tenant shall lease the Premises for an additional period of ninety (90) days commencing upon the date of such notice at a Base Rent rate equal to 150% the Base Rent applicable immediately prior to such termination or expiration and otherwise subject to all the covenants and conditions of this Lease. Notwithstanding the foregoing, if Landlord desires to regain possession of the Premises promptly after the termination or expiration hereof and prior to acceptance of rent for any period thereafter, Landlord may, at its option, forthwith re-enter and take possession of the Premises or any part thereof without process or by any legal process in force in the Commonwealth of Massachusetts. Tenant shall also pay to Landlord all damages, direct or indirect, sustained by Landlord by reason of any such holding over.

17.13 RELOCATION

Intentionally omitted.

17.14 COUNTERPARTS

This Lease is executed in any number of counterparts, each copy of which is identical, and any one of which shall be deemed to be complete in itself and may be introduced in evidence or used for any purpose without the production of the other copies.

17.14 CONSTRUCTION AND GRAMMATICAL USAGE

This Lease shall be governed, construed and interpreted in accordance with the laws of The Commonwealth of Massachusetts, and Tenant agrees to submit to the personal jurisdiction of any court (federal or state) in said Commonwealth for any dispute, claim or proceeding arising out of or relating to this Lease. In construing this Lease, feminine or neuter pronouns shall be substituted for those masculine in form and vice versa, and plural terms shall be substituted for singular and singular for plural in any place in which the context so admits or requires. If there be more than one party tenant, the covenants of Tenant shall be the joint and several obligations of each such party and, if Tenant is a partnership, the covenants of Tenant shall be the joint and several obligations of each of the partners and the obligations of the firm.

17.15 WHEN LEASE BECOMES BINDING

Employees or agents of Landlord have no authority to make or agree to make a lease or any other agreement or undertaking in connection herewith. The submission of this document for examination and negotiation does not constitute an offer to lease, or a reservation of, or option for, the Premises, and this document shall become effective and binding only upon the execution and delivery hereof by both Landlord and Tenant.

17.16 SECURITY DEPOSIT

Tenant shall deliver to Landlord within 14 days of Tenant's execution of this Lease, an unconditional, clean, irrevocable, fully assignable standby letter of credit (the "L-C") in the amount of the Fifty Thousand and 00/100 (\$50,000.00) Dollars, which L-C shall be issued by a commercial bank which is acceptable to Landlord, and which L-C may be presented for payment in a location acceptable to Landlord. The L-C shall be in form and content reasonably acceptable to Landlord and for a term of not less than one (1) year. Tenant shall pay all expenses, points and/or fees associated with obtaining the L-C.

The L-C shall be held by Landlord as security for the faithful performance by Tenant of all the terms, covenants, and conditions of this Lease to be kept and performed by Tenant during the Lease Term. If Tenant defaults with respect to any provisions of this Lease in accordance with Article X herein, including, but not limited to, the provisions relating to the payment of rent, or if Tenant fails to renew the L-C at least thirty (30) days before its expiration, Landlord may, but shall not be required to, draw upon all or any portion of the L-C for payment of any rent or any other sum in default, or for the payment of any amount that Landlord may spend or may become obligated to spend by reason of Tenant's default; or to compensate Landlord for any other loss, cost or damage that Landlord may suffer by reason of Tenant's default. The use, application or retention of the L-C, or any portion thereof, by Landlord shall not prevent Landlord from exercising any other right or remedy provided by this Lease or by law. The parties agree that Landlord shall not first be required to proceed against the L-C and the L-C shall not operate as a limitation on any recovery to which Landlord may otherwise be entitled. Any amount of the L-C which is drawn upon by Landlord, but is not used or applied by Landlord, shall be held by Landlord (and need not be segregated in a separate account) and deemed a security deposit (the "L-C Security Deposit"). If any portion of the L-C is drawn upon, Tenant shall, within five (5) business days after written demand therefor, reinstate the L-C to the amount then required under this Lease, and Tenant's failure to do so shall be an Event of Default under this Lease. Upon Tenant's reinstatement of the L-C to the amount required under this Lease, Landlord shall promptly return to Tenant the amount of Landlord's draw on the L-C, but only to the extent Landlord has not used or is not entitled to retain the amount drawn in accordance with this Section. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the L-C Security Deposit and/or the L-C, or any balance thereof, shall be returned to Tenant within sixty (60) days following the later of the expiration of the Term or the vacating of the Premises by Tenant.

Upon any conveyance by Landlord of its interest under this Lease, the L-C may be assigned by Landlord to Landlord's grantee or transferee and the L-C Security Deposit may be delivered by Landlord's grantee or transferee. Upon any such assignment or delivery, Tenant hereby releases Landlord herein named of and from any and all liability with respect to the L-C and L-C Security Deposit, its and their application and return, and Tenant agrees to look solely to such grantee or transferee. This provision shall also apply to subsequent grantees and transferees. Tenant shall pay as additional rent any transfer fees charged by the issuer of the L-C.

Provided that no Default of Tenant (as defined in Section 14.1) or event that with the passage of time, or the giving of notice, or both, would constitute a Default of Tenant has occurred, the amount of the L-C shall be reduced to Twenty-Five Thousand and 00/100 (\$25,000.00) Dollars effective as of the 25th month following the Term Commencement Date. Landlord shall agree to an appropriate replacement or amendment of the L-C in order to effect such reduction.

17.17 LANDLORD'S ENFORCEMENT EXPENSES

Unless prohibited by applicable law, the Tenant agrees to pay to the Landlord the amount of all fees and expenses (including, without limitation, attorneys' fees and costs) incurred by the Landlord arising out of or resulting from any act or omission by the Tenant with respect to this Lease or the Premises, including without limitation, any breach by the Tenant of its obligations hereunder, irrespective of whether Landlord resorts to litigation as a result thereof.

17.18 NO SURRENDER

The delivery of keys to any employee of Landlord or to Landlord's agents or employees shall not operate as a termination of this Lease or a surrender of the Premises.

17.19 COVENANT OF QUIET ENJOYMENT

Subject to the terms and provisions of this Lease and on payment of the Rent, additional rent, and other sums due hereunder and compliance with all of the terms and provisions of this Lease, Tenant shall lawfully, peaceably, and quietly have, hold, occupy, and enjoy the Premises during the term hereof, without hindrance or ejection by Landlord or by any persons claiming under Landlord.

17.20 NO PERSONAL LIABILITY OF THE LANDLORD

The Tenant agrees to look solely to Landlord's then equity interest in the Building and the Lot at the time owned, or in which Landlord holds an interest as ground lessee, for recovery of any judgment from Landlord; it being specifically agreed that neither Landlord (whether Landlord be an individual, partnership, firm, corporation, trustee, or

other fiduciary) nor any partner, policyholder, officer, shareholder or director of Landlord, nor any trust of which any person holding Landlord's interest is trustee nor any successor in interest to any of the foregoing shall ever be personally liable for any such judgment, or for the payment of any monetary obligation to Tenant. The covenants of Landlord contained in this Lease shall be binding upon Landlord and Landlord's successors only with respect to breaches occurring during Landlord's and Landlord's successors' respective periods of ownership of Landlord's interest hereunder.

17.21 NOTICES

Whenever, by the terms of this Lease, notice shall or may be given either to Landlord or to Tenant, such notice shall be in writing and shall be delivered by hand or sent by registered or certified mail, postage prepaid or by so-called "express" mail (such as Federal Express or U.S. Postal Service Express Mail):

If intended for Landlord, addressed to Managing Agent at the address set forth in Section 1.2 with a copy to Landlord at the address set forth in Section 1.2 or to such other addresses as may from time to time hereafter be designated by Landlord by like notice.

If intended for Tenant, addressed to Tenant at the address set forth on the first page of this Lease with a copy to _____, or to such other address or addresses as may from time to time hereafter be designated by Tenant by like notice.

All such notices shall be effective upon delivery, attempted delivery, or refusal, whichever occurs first, at the address or addresses of the intended recipient, as set forth above.

17.22 FURNITURE

The furniture listed in Exhibit B attached hereto (the "Furniture") is Landlord's personal property. During the Lease Term, Tenant shall have the exclusive use of the Furniture for ordinary office use. Tenant shall maintain the Furniture in good condition excepting normal wear and tear.

17.23 TERMINATION OPTION

Tenant shall the right to terminate the Lease (the "Early Termination Option") on or at any time after September 30, 2018 by giving written notice thereof (the "Early Termination Notice") to Landlord no later than two hundred seventy (270) days prior to the effective date of said early termination (the "Early Termination Date"), provided that (i) at the time of giving such Early Termination Notice, Tenant is not in default beyond applicable notice and/or cure periods in the performance or observation of any of the terms and provisions of the Lease on the part of the Tenant to be performed or observed and (ii) Tenant makes a one-time payment to Landlord along with delivery of said Early Termination Notice, of a "termination fee" in the amount of the sum of all unamortized

brokerage commissions calculated on a level payments basis starting as of the rent commencement date with interest at 8% per annum plus nine (9) months of then current Base Rent.

17.24 RENEWAL OPTION

Tenant may elect to extend the Term of this Lease for one (1) five- (5) year period (the "Extension Term"), by giving Landlord notice of such election no less than twelve (12) months prior to the expiration of the initial Term. Such extension shall be upon the terms, covenants, and conditions contained in this Lease except that Tenant shall have no further right to extend the Lease Term and except that the Base Rent for the Extension Term shall be at fair market rent for comparable space in comparable properties and not less than the Base Rent in effect during the last year of the initial Term.

If Landlord and Tenant are unable to agree on the amount of such fair market rent by the date that is thirty (30) days after the date of Tenant's election notice based on rental rates and terms for comparable space in the Lowell, MA area, then Landlord shall promptly specify in writing the rent (the Landlord's Rental Rate") at which Landlord is willing to lease the Premise for the Extension Term and Tenant shall promptly specify in writing the rent (the "Tenant's Rental Rate") which Tenant is willing to pay for the Premises for the Extension Term and the amount of the fair market rent shall be established by appraisal in the following manner. The Landlord and Tenant shall each appoint one appraiser and the two appraisers so appointed shall determine the fair market rent within thirty days of Tenant's election notice. If such appraisers are unable to agree on the amount of such fair market rent within such 30-day period, they shall appoint a third appraiser within ten (10) days of the expiration of such period, who shall be instructed to select, as between the rents chosen by the two appraisers, the rent that is closest to the third appraiser's estimate of Fair Market Rent. The fair market rent shall be the amount so selected by the third appraiser and shall be conclusive on the Landlord and Tenant.

Each party shall bear the cost of its appraiser, and the cost of the third appraiser shall be split equally between parties; provided that if the rental rate as so determined is equal to or greater than Landlord's Rental Rate, then Tenant shall pay the entire cost of all appraisers and if such rate as so determined is equal to or less than Tenant's Rental Rate, then Landlord shall pay the entire cost of all appraisers.

Until such time as the fair market rent is so determined, Tenant shall continue to pay Base Rent as dictated by the Lease with appropriate adjustment once the fair market rent is determined. The third appraiser's estimate shall be based on the data supplied and used by the original two appraisers and the findings made by the third appraiser shall be set forth in writing.

(Signatures on the following page)

IN WITNESS WHEREOF, the parties hereto have executed this instrument under seal as of the date set forth in Section 1.2, above.

LANDLORD:

FORTUNE WAKEFIELD, LLC


By: _____
Its: Roger W. Altreuter
Manager

TENANT:

CSP, INC.



By: _____
Its: GARY W. LEVINE
CFO

EXHIBIT A

PREMISES

The Premises consists of a portion of the 2nd floor of 175 Cabot Street as shown on the attached plan.

EXHIBIT A

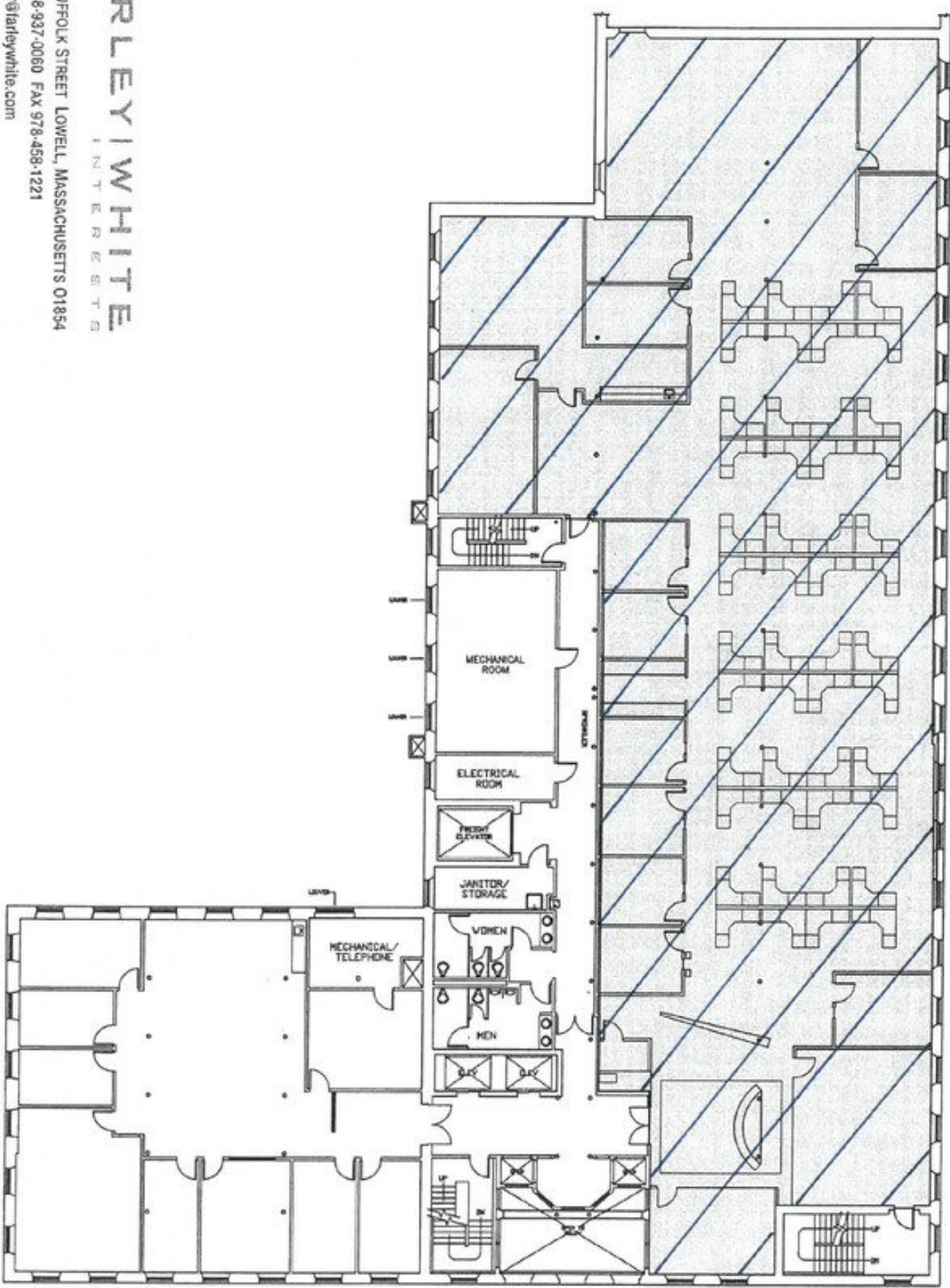
PREMISES

The Premises consists of a portion of the 2nd floor of 175 Cabot Street as shown on the attached plan.

Wannalancit Office Center
Lowell, Massachusetts

175 Cabot Street
Second Floor Plan

EXHIBIT A
"Premises"



FARLEY | WHITE
I N T E R I O R S
660 SUFFOLK STREET LOWELL, MASSACHUSETTS 01854
TEL. 978-937-0060 FAX 978-458-1221
jpower@farleywhite.com

EXHIBIT B

FURNITURE

During the Lease Term, Tenant shall have exclusive use of the Furniture below:

- Any existing affixed cubicles
- Reception desk
- 37 Desks
- 34 Chairs
- 26 Small 2-drawer file cabinets
- 12 Bookcases
- 1 Server rack
- 2 Affixed supplemental A/C units in the server room

EXHIBIT C

BUILDING SERVICES

I. CLEANING

Cleaning and janitorial services shall be provided as needed Monday through Friday, exclusive of holidays, Saturdays and Sundays.

A. OFFICE AREAS

Cleaning and janitorial services to be provided in the office areas shall include:

1. Vacuuming, damp mopping of resilient floors and trash removal.
2. Dusting of horizontal surfaces within normal reach (tenant equipment to remain in place)
3. High dusting and dusting of vertical blinds to be rendered as needed.

B. LAVATORIES

Cleaning and janitorial services to be provided in the common area lavatories of the building shall include:

1. Dusting, damp mopping of resilient floors, trash removal, sanitizing of basins, bowls and urinals as well as cleaning of mirrors and bright work.
2. Refilling of soap, towel, tissue and sanitary dispensers to be rendered as necessary.
3. High dusting to be rendered as needed.

C. MAIN LOBBIES, ELEVATORS, STAIRWELLS AND COMMON CORRIDORS

Cleaning and janitorial services to be provided in the common areas of the building shall include:

1. Trash removal, vacuuming, dusting and damp mopping of resilient floors and cleaning and sanitizing of water fountains.
2. High dusting to be rendered as needed.

D. WINDOW CLEANING

All exterior windows shall be washed on the inside and outside surfaces at frequency necessary to maintain a first class appearance.

II. HEATING, VENTILATION AND AIR CONDITIONING

Heating, ventilating and air conditioning of the common areas as required to provide reasonably comfortable temperatures for normal business day occupancy (excepting holidays); Monday through Friday from 8:00 AM to 6:00 PM, will be provided through various means. Landlord agrees to maintain and keep in good working order all heating, ventilating and air conditioning equipment servicing the premise.

III. WATER

Hot water for public lavatory purposes and cold water for public drinking, lavatory and toilet purposes

IV. ELEVATORS

Elevators for the use of all tenants and the general public will provide access to and from all occupied floors of the building.

V. RELAMPING OF LIGHT FIXTURES

Tenant is responsible for lamps, ballasts and starters within the Premises.

VI. SECURITY

All parking lots will be secured with card access only, during normal business hours (except visitor sections).

Landlord utilized a system of video cameras and patrolling security guards to monitor and secure the Building and parking lots.

VII. SNOWPLOWING

1. Landlord will begin plowing of parking lots and walks whenever three inches of snow accumulates or more often as necessary to maintain the the parking lots and walks in a safe condition.
2. Landlord will use diligent efforts, following overnight storms, to have all lots cleared and open by 8:00 AM each business day morning.

VIII. SHUTTLE BUS SERVICE

Landlord shall provide a shuttle service from 7:15 AM to 9:30 AM and from 4:30 PM to 6:15 PM to and from the Ayotte Garage. Landlord shall not be obligated to provide a shuttle service so long as Landlord can meet all of the Tenant's standard parking requirements per this Lease with parking spaces on lots surrounding the Property.

IX. VISITOR PARKING

Landlord shall provide forty five (45) visitor parking spaces for Tenants guests.

EXHIBIT D

RULES AND REGULATIONS

Building hours are from 8:00 a.m. to 6:00 p.m. Monday through Friday

- A. The entrances, lobbies, passages, corridors, elevators, halls, courts, sidewalks, vestibules, and stairways shall not be encumbered or obstructed by Tenant, Tenant's agents, servants, employees, licensees or visitors or used by them for any purposes other than ingress or egress to and from the Premises.
- B. The moving in or out of all safes, freight, furniture, or bulky matter of any description shall take place during the hours that Landlord may determine from time to time. Typical hours are after 5:00 p.m. Monday – Friday or weekends. Landlord reserves the right to inspect all freight and bulky matter to be brought into the Building and to exclude from the Building all freight and bulky matter which violates any of these Rules and Regulations or the Lease of which these Rules and Regulations are a part. Landlord reserves the right to have Landlord's structural engineer review Tenant's floor loads on the Premises at Tenant's expense. A Landlord representative is required to be on site during any off hours move. There is a hour minimum charge for this service.
- C. Tenant, or the employees, agents, servants, visitors or licensees of Tenant shall not at any time place, leave or discard any rubbish, paper, articles, or objects of any kind whatsoever outside the doors of the Premises or in the corridors or passageways of the Building.
- D. No animals or birds shall be brought or kept in or about the Building. Bicycles shall not be permitted in the Building.
- E. Tenant shall not place objects against glass partitions or doors or windows or adjacent to any common space which are visible from the Building corridors or from the exterior of the Building and will promptly remove the same upon notice from Landlord.
- F. Tenant shall not make noises, cause disturbances, create vibrations, odors or noxious fumes or use or operate any electric or electrical devices or other devices that emit sound waves or are dangerous to other tenants and occupants of the Building or can be felt, heard or experienced by other tenants or in common areas or that would interfere with the operation of any device or equipment or radio or television broadcasting or reception from or within the Building or elsewhere, or with the operation of roads or highways in the vicinity of the Building, and shall not place or install any projections, antennae, aerials, or similar devices inside or outside of the Premises.
- G. Landlord may place reasonable restrictions on any cooking in the Premises.

- H. Tenant shall not use the Premises: (a) for lodging, manufacturing or for any immoral or illegal purposes; (b) to engage in the manufacture or sale of, or permit the use of spirituous, fermented, intoxicating or alcoholic beverages on the Premises; (c) to engage in the manufacture or sale of, or permit the use of, any illegal drugs on the Premises; or (d) for any retail use.
- I. No awning, antennas or other projections shall be attached to the outside walls or windows. No curtains, blinds, shades, screens or signs other than those furnished by Landlord shall be attached to, hung in, or used in connection with any window or door of the Premises. Existing window treatments shall remain in place.
- J. No signs, advertisement, object, notice or other lettering shall be exhibited, inscribed, painted or affixed on any part of the outside or inside of the Premises if visible from outside of the Premises.
- K. Tenant shall not use the name of the Building or use pictures or illustrations of the Building in advertising or other publicity without prior written consent of Landlord. Landlord shall have the right to prohibit any advertising by Tenant, which, in Landlord's opinion, tends to impair the reputation of the Building or its desirability for offices, and upon written notice from Landlord, Tenant will refrain from or discontinue such advertising.
- L. Landlord will furnish door keys for doors in the Premises at the Commencement of the Lease. All tenant keys must be on the building master. Tenant shall not affix additional locks on doors and shall purchase duplicate keys only from Landlord. In the event of the loss of any keys so furnished by Landlord, Tenant shall pay to Landlord the cost thereof. At lease termination keys to all keyed locksets must be returned to landlord.
- M. Tenant shall cooperate and participate in all security programs affecting the Building.
- N. Tenant assumes full responsibility for protecting its space from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed and secured.
- O. Tenant shall not make any room-to-room canvas to solicit business from other tenants in the Building, and shall not exhibit, sell or offer to sell, use, rent or exchange any item or services in or from the Premises. Canvassing, soliciting and peddling in the Building are prohibited and Tenant shall cooperate to prevent the same. Peddlers, solicitors and beggars shall be reported to the Management Office.
- P. Tenant shall not mark, paint, drill into, or in any way deface any part of the Building or Premises. No boring, driving of nails, or screws, cutting or stringing of wires shall be permitted, except with the prior written consent of Landlord, and as Landlord may direct. Tenant shall not install any resilient tile or similar floor covering the Premises. The use of cement or other similar adhesive material is

expressly prohibited. Any tenant space improvements must be approved by landlord prior to starting any work.

- Q. Tenant shall not waste electricity or water and agrees to cooperate fully with Landlord to assure the most effective operation of the Building's heating and air conditioning. Tenant shall keep corridor doors closed except when being used for access.
- R. The water and wash closets and other plumbing fixtures shall not be used for any purposes other than those for which they were constructed, and no sweepings, rubbish, rags, or other substances shall be thrown therein.
- S. No smoking shall be permitted in any portion of the Building (including the Premises and all common areas within the Building). Landlord may also limit smoking in exterior areas to such location or locations as Landlord may designate from time to time. No sale or distribution of tobacco or tobacco products shall be permitted anywhere in the Building or on the Lot or any other facilities operated in connection with the Building or the Lot.
- T. Building employees shall not be required to perform, and shall not be requested by any tenant or occupant to perform, any work outside of their regular duties, unless under specific instructions from the office of the Manager of the Building. Refer to the Tenant Manual for more specific information.
- U. Tenant contractors must provide a certificate of insurance meeting all requirements prior to any work starts. Landlord should receive certificate with additional insured at least three days before work starts.
- V. Off-hour work by tenant contractor requires that a person representing the landlord be present in work area. Tenant will be billed back for labor hours.
- W. Tenant's contractors must adhere to the Hot Works Program whenever any welding, cutting, burning, spark producing work is being done. Hot works permit can be obtained from site engineer. You will also be required to provide a fire watch, one hour after hot work has been completed to ensure no fire exist.
- X. Landlord is not responsible for tenant owned supplemental equipment. Service will be provided at an additional cost.
- Y. Tenant is not allowed to install vending machines in their space.
- Z. To mitigate the risk of uncontrolled leaks, the following plumbing installations must have provisions for automatic shutoff with audible alarm and leak sensor; dishwashers, hot water heaters, coffee makers, drinking water filters, ice machines and any other appliances connected to live water supply. The choice of sensor and shutoff device must be approved by the property management company prior to installation. All shutoffs must be in copper piping.

EXHIBIT E

LANDLORD'S WORK

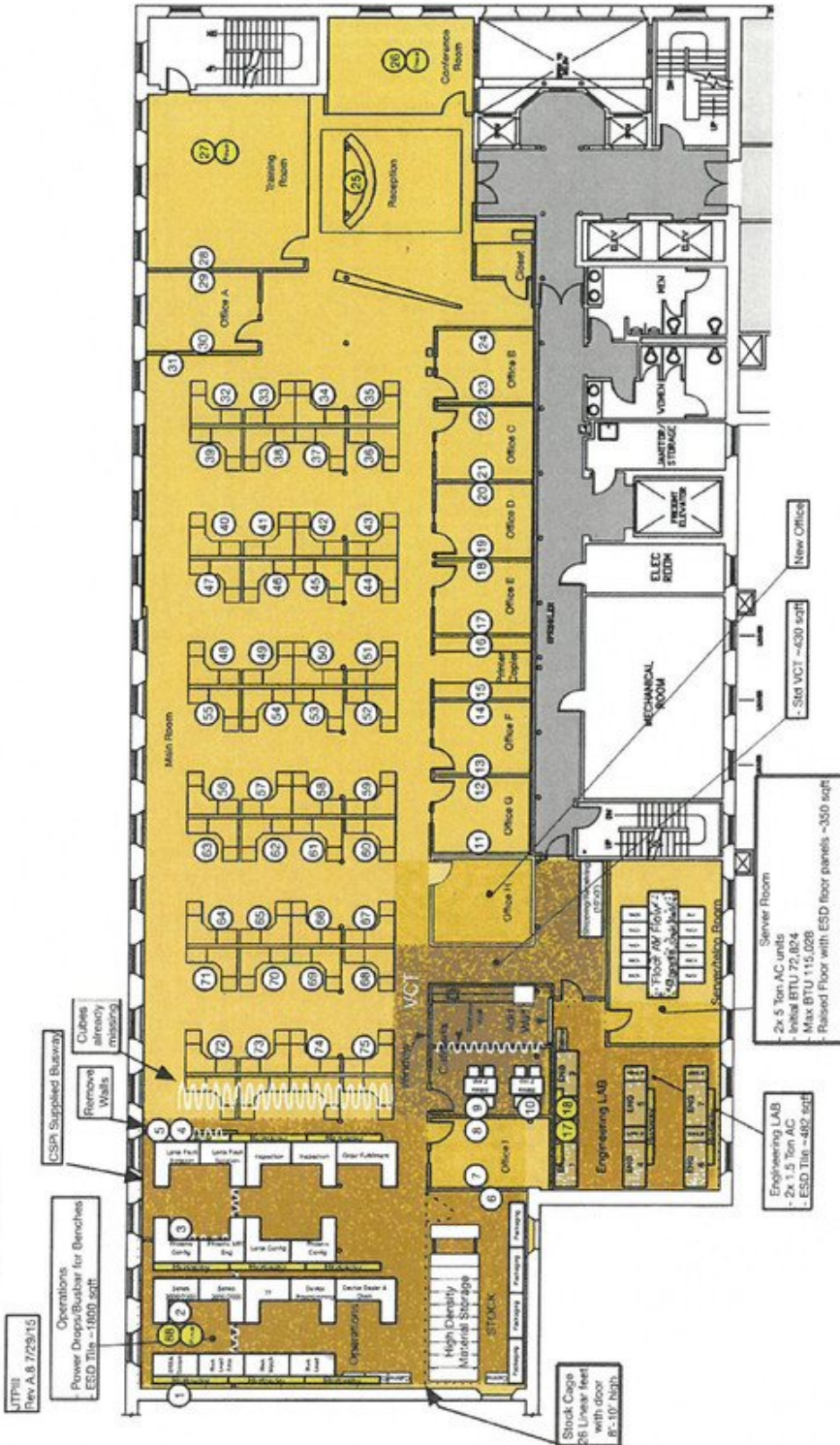
Landlord shall, at Landlord's expense, renovate the Premises using building standard materials and in accordance with the plan and specifications attached hereto.

Tenant shall be responsible for the cost of all material, finishes and related labor in excess of building standard ("Tenant Upgrades"). Said Tenant Upgrades include:

- Relocate (1) 1.5 ton supplement AC unit from Network room to Software lab
- Install Busway system as shown on the floor plan attached hereto
- Install raised floor in Network room
- Close off existing cafeteria entrance
- Cut in window to new cafeteria
- Install one (1) GPS antenna on roof and pull coax connector into Network room. Tenant shall be responsible for all expenses as they relate to the installation, maintenance, repair and removal of said antenna and any components thereto.
- Tenant shall be responsible for the cost of any Premises-specific security or announcement systems

EXHIBIT E
"Landlord's Work"

175 Cabot Street, Second Floor
Wannalancit Mills, Lowell, MA



Punch List - 175 Cabot Street



✓ - LL responsibility
T - Tenant responsibility

Complete	Phase	Flag	Notes
	Floor Plan		(See attached file; Click on the paperclip)
2 Complete	<input checked="" type="checkbox"/> Demolition		Notes
3	Remove wall between cafeteria and adjacent office		
4	Remove two rooms at the rear of the space		Please preserve Ethernet wiring
5 Complete	<input checked="" type="checkbox"/> Construction		Notes
6	Add office H		Same look and feel of the adjacent offices. This office should be larger than the adjacent offices
7	Install 26' foot stock cage		Stock cage should match the color of the venting if possible
8	Move 2 1.5 ton AC units from Network room to Software Lab		Langford and Tenant have agreed to split the cost associated herewith
9	Install 10 ton AC		I would prefer a redundant system or two 5 ton units as a fail safe. This area should never be without AC. We are investigating the use of a raised floor in this area which may impact the type of AC unit installed.
10	ESD Tile Operations		Install ~1800 sqft ESD tile
11	ESD Software Lab		Install ~482 sqft ESD Tile
12	ESD Network Room	🚩	Install ~350 sqft ESD tile dependent on raised floor decision
13	Standard VCT		Install ~430 sqft of standard VCT as shown on Floor Plan
14	Install Busway system		Install as shown on the Floor Plan
15	Install raised Network room floor	🚩	This is currently being explored and will eliminate the need for ESD tile and busway
16	Install a window into the cafeteria to allow for natural light.		Maintain the look and feel of the office entrances.
17	Close off the existing cafeteria entrance		
18 Complete	<input checked="" type="checkbox"/> Main Room		Notes
19	Clean and repair carpet		
20	Patch and touch up as needed		
21 Complete	<input checked="" type="checkbox"/> Training Room		Notes
22	Clean carpet		
23	Remove the two vertical floor to ceiling white lines from the brick		
24 Complete	<input checked="" type="checkbox"/> Conference Room		Notes
25	Glass door is rubbing against the baseboard		

Exported on July 29, 2015 5:19:19 PM EDT Highlighting changes made Today

Complete	Phase	Flag	Notes
✓	Dead insects along the first windowsill as you enter the room. Please check window seals.		
✓	Clean carpet		
Complete	<input type="checkbox"/> Reception		Notes
✓	Remove Hand prints from metallic surfaces		
✓	Mitigate scratches in the floor		Especially near the conference room door
31	<input checked="" type="checkbox"/> Add a system to announce visitors		I'm not sure what has been done in other spaces
Complete	<input type="checkbox"/> Closet		Notes
33	Clean carpet		
Complete	<input type="checkbox"/> Software Lab		Notes
35	<input checked="" type="checkbox"/> GPS antenna on the roof and pull a coax connector into the computer room.		
36	Remove any wall anchors		
37	Patch and touch up walls		
38	Note: Floor is slanted <i>slanting</i>		No action required
Complete	<input type="checkbox"/> Kitchen		Notes
40	Remove any wall anchors		
41	Patch and touch up walls		
42	Remove Poster		
Complete	<input type="checkbox"/> Network Room		Notes
44	Remove any unused wall anchors		
45	Patch and touch up walls		
46	Repair hole in the brick wall along the floor		
Complete	<input type="checkbox"/> Office A		Notes
48	Remove any wall anchors		
49	Remove cork board		
50	Remove coax box		
51	Patch and touch up walls		
Complete	<input type="checkbox"/> Cube 32		Notes
53	Missing cube walls		Outer partition blocks the aisle near Office A
Complete	<input type="checkbox"/> Cube 33		Notes

Complete	Phase	Flag	Notes
✓	Missing cube walls		
Complete ✓	☐ Cube 34		Notes
	Missing cube walls		
Complete ✓	☐ Cube 35		Notes
	Missing cube walls		
Complete ✓	☐ Cube 36		Notes
	Missing Outer cube wall		
Complete ✓	Cube 37		Notes
Complete ✓	Cube 38		Notes
Complete ✓	☐ Cube 39		Notes
	Missing Outer cube wall		
Complete ✓	Cube 40		Notes
Complete ✓	Cube 41		Notes
Complete ✓	Cube 42		Notes
Complete ✓	☐ Cube 43		Notes
	Missing Outer cube wall		
Complete ✓	☐ Cube 44		Notes
	Missing Outer cube wall		
Complete ✓	Cube 45		Notes
Complete ✓	Cube 46		Notes
Complete ✓	☐ Cube 47		Notes
	Missing Outer cube wall		
Complete ✓	Cube 48		Notes
Complete ✓	Cube 49		Notes
Complete ✓	Cube 50		Notes
Complete ✓	☐ Cube 51		Notes
	Missing Outer cube wall		
Complete ✓	☐ Cube 52		Notes
	Missing Outer cube wall		
Complete ✓	Cube 53		Notes
Complete ✓	Cube 54		Notes
Complete ✓	☐ Cube 55		Notes
	Missing Outer cube wall		

Complete	Phase	Flag	Notes
88 Complete	Cube 56		Notes
89 Complete	<input type="checkbox"/> Cube 57		Notes
90	Repair Carpet Damage		
91 Complete	Cube 58		Notes
92 Complete	<input type="checkbox"/> Cube 59		Notes
93	Missing Outer cube wall		
94 Complete	Cube 60		Notes
95 Complete	Cube 61		Notes
96 Complete	Cube 62		Notes
97 Complete	<input type="checkbox"/> Cube 63		Notes
98	Missing Outer cube wall		
99 Complete	Cube 64		Notes
100 Complete	Cube 65		Notes
101 Complete	Cube 66		Notes
102 Complete	Cube 67		Notes
103 Complete	Cube 68		Notes
104 Complete	Cube 69		Notes
105 Complete	Cube 70		Notes
106 Complete	<input type="checkbox"/> Cube 71		Notes
107	Missing Outer cube wall		
108 Complete	Cube 72		Notes
109 Complete	Cube 73		Notes
110 Complete	Cube 74		Notes
111 Complete	Cube 75		Notes
112 Complete	<input type="checkbox"/> Cube 76		Notes
113	Do not install cube walls		
114 Complete	<input type="checkbox"/> Cube 77		Notes
115	Do not install cube walls		
116 Complete	<input type="checkbox"/> Cube 78		Notes
117	Do not install cube walls		
118 Complete	<input type="checkbox"/> Cube 79		Notes
119	Do not install cube walls		
120 Complete	<input type="checkbox"/> Stockroom		Notes

Complete	Phase	Flag	Notes
✓	Patch and touch up walls		
✓	Repair hole in the brick wall along the ceiling		
Complete	Office B		Notes
	Remove any wall anchors		
	Patch and touch up walls		
	Clean Carpet		
Complete	Office C		Notes
	Remove any wall anchors		
	Patch and touch up walls		
	Clean Carpet		
Complete	Office D		Notes
✓	Remove any wall anchors		
✓	Patch and touch up walls		
	Eliminate constant rattle <i>unknown</i>		
✓	Clean Carpet		
Complete	Office E		Notes
✓	Remove any wall anchors		
✓	Patch and touch up walls		
	Mitigate HVAC noise <i>unknown</i>		Measured 47-50db in this office
✓	Clean Carpet		
Complete	Printer/Copier		Notes
✓	Remove any wall anchors		
✓	Patch and touch up walls		
✓	Remove Mouse Trap		
✓	Clean Carpet		
Complete	Office F		Notes
✓	Remove any wall anchors		
✓	Patch and touch up walls		
	Mitigate HVAC noise <i>unknown</i>		Measured 47-50db in this office

Complete	Phase	Flag	Notes
150	Clean Carpet		
151	Complete ✓ <input type="checkbox"/> Office G		Notes
152	Remove any wall anchors		
153	Patch and touch up walls		
154	Clean Carpet		
155	Complete ✓ <input type="checkbox"/> Office H		Notes
156	New Office		
157	Match look and feel of other offices		Apply to install carpet in new office, color and pattern to be selected by Tenant
158	Complete ✓ <input type="checkbox"/> Office I		Notes
159	Remove any wall anchors		
160	Patch and touch up walls		
161	Clean Carpet		

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

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement Nos. 333-64493, 333-124030, 333-124031, 333-151024, and 333-207229 on Form S-8 of CSP, Inc and Subsidiaries of our report dated December 24, 2015, relating to our audit of the consolidated financial statements, which is incorporated in this Annual Report on Form 10-K of CSP, Inc. and Subsidiaries for the year ended September 30, 2015.

Boston, Massachusetts
December 24, 2015

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

I, Victor Dellovo, 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(s) 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 assurance 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(s) 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 (or persons performing the equivalent functions):
 - 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.

December 24, 2015

/s/ Victor Dellovo

Victor Dellovo

Chief Executive Officer and

President

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(s) 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 assurance 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(s) 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 (or persons performing the equivalent functions):
 - 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.

December 24, 2015

/s/Gary W. Levine

Gary W. Levine

Chief Financial Officer

18 U.S.C. Section 1350,**AS ADOPTED 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 the year ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned Chief Executive Officer, President and Chairman and 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.

December 24, 2015

By: /s/ Victor Dellovo

Victor Dellovo

Chief Executive Officer and President and Director

December 24, 2015

By: /s/ Gary W. Levine

Gary W. Levine

Chief Financial Officer