# 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, 2023.**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number 000-10843**

## CSP Inc.
**(Exact name of Registrant as specified in its Charter)**

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

**175 Cabot Street, Lowell, Massachusetts 01854**
**(Address of principal executive offices)**

**(978) 954-5038**
**(Registrant's telephone number including area code)**

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

| Title of Each Class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Stock, par value $0.01 per share | CSPI | 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐.

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

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer ☒ | Smaller Reporting Company ☒ |
| | Emerging Growth Company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $46,342,376, based on the closing sale price of $13.59 as reported on the Nasdaq Global Market on March 31, 2023.

As of December 11, 2023, we had outstanding 4,727,573 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 2024 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, 2023.

## TABLE OF CONTENTS



Note: Items 1B 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. 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," "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 be 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 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.*

# PART I

## Item 1. *Business*

CSP Inc. ("CSPi" or "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 products, managed IT services, cloud services, purpose built network adapters, and high-performance cluster computer systems.

### Segments

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

***TS Segment***

- The TS segment consists of our wholly-owned Modcomp, Inc. subsidiary, which operates in the United States and the United Kingdom.

- The TS segment generates product revenues by reselling third-party computer hardware and software as a value added reseller ("VAR"). The TS segment generates service revenues by the delivery of professional services for complex IT solutions, including advanced security; unified communications and collaboration; wireless and mobility; data center solutions; and network solutions as well as managed IT services ("MSP") that primarily serve the small and mid-sized business market ("SMB").

- Third party products and professional services are marketed and sold through the Company's direct sales force into a variety of vertical markets, including; automotive; defense; health care; education; federal, state and local government; and maritime.

***HPP Segment***

- The HPP segment revenue comes from three distinct product lines: (i) a cybersecurity solution marketed as ARIA™ Software-Defined Security ("SDS"), which is offered to commercial, original equipment manufacturers ("OEM") and government customers; (ii) the Myricom® network adapters and related software for commercial, government and OEM customers; and (iii) the legacy Multicomputer product portfolio for digital signal processing ("DSP") applications within the defense markets.

- The ARIA SDS solution is a software portfolio comprised of 3 products: ARIA Packet Intelligence software which is used by customers for its high-speed wire-rate in-line packet filtering, steering and policy enforcement functions. ARIA Advanced Detection and Response solution used by customers to find and stop threats in real-time by monitoring their entire network, device and services footprint. It is used as the basis of MDR (Managed Detection and Response) services offered by ARIA and its MSSP partners who provide it as part of a 24x7 managed SOC (Security Operations Center) offering. The product automates the MITRE ATT&CK™ framework to find threats up to 100 times faster with fewer human resources than other solutions.

- In July of 2023 ARIA Zero Trust (AZT) PROTECT was introduced to the market. ARIA AZT PRTOECT™ was designed to fill a gap in the market – stopping the most sophisticated attacks that are used to attack critical infrastructure applications before harm can be done. It compliments other protection technologies already in place and can stop some of the most well-known attacks including the SolarWinds attack, and the recent Russian sponsored Sandworm attacks used on utilities and energy infrastructure. The product is already deployed and generating revenue from its initial contracts.

- Revenue is derived from: (i) license sales of our software platform components, (ii) support packages and (iii) any required supporting services. The software licenses, the support packages, as well as supporting services are renewable on a recurring basis.

- The ARIA portfolio is of value to regulated industries, such as manufacturing, pharmaceuticals, financial services, energy production, utilities, transport and healthcare, due to the rise of critical infrastructure regulations enforced at the federal, U.S. state, and international level, as well as industry entities. In addition, due to the complexities and high-costs associated with enterprise-wide security, particularly in the creation and operation of Security Operation Centers ("SOCs"), we believe that ARIA will be attractive to organizations that desire SOC level protections without incurring the procurement of disparate tools and the need to hire and retain highly trained security analysts. We also have begun selling our unique, solution into Managed Security Service Providers ("MSSPs") that want to offer a lower cost, more effective service at detecting today's widening range of cyber-attacks.

- The Myricom SmartNIC adapters ("ARC Series" and Myricom Secure Intelligent Adapters or "SIA") are optimized for and sold into markets that require high-bandwidth and low-latency including (i) packet capture, (ii) financial transactions, (iii) machine vision and (iv) network security. The ARC series has reached end of life due to ASIC supplier problems which will significantly reduce its contribution to the HPP line of business. The focus is now supporting its applications on 3rd party provided intelligent network interface cards.

- Multicomputer products for DSP applications are no longer actively developed but will continue to be sold into established programs through FY2024 and supported for several years via our repair services offering. The revenue from these products, as a percentage of overall Company revenue, is expected to continue to decline over time.

**Sales Information by Industry Segment**

The following table details our sales by operating segment for fiscal years ending September 30, 2023 and 2022. Additional segment and geographical information are set forth in *Note 17 Segment Information* to the consolidated financial statements.

| Segment | 2023 | % | 2022 | % |
|---|---|---|---|---|
| | (Dollar amounts in thousands) | | | |
| TS | $ 57,774 | 89 % | $ 50,518 | 93 % |
| HPP | 6,873 | 11 % | 3,843 | 7 % |
| Total Sales | $ 64,647 | 100 % | $ 54,361 | 100 % |

**TS Segment**

**Products and Services**

***Integration Solutions***

The TS segment is a value-added reseller ("VAR") of third-party hardware and software technology solutions along with our advanced technology consulting, professional IT, managed IT and Cloud services. Our value proposition is our ability to support the complete IT life cycle of planning, designing, implementing and optimizing a comprehensive solution into our customer's IT environments, to help achieve their expected business outcomes.

***Third-Party Hardware and Software***

We sell third-party hardware, software, and information technology products, with a strategic focus on industry standard servers and data center infrastructure solutions, midrange data storage infrastructure products, networking and mobility products, unified communications, and advanced IT security hardware and software solutions. Our key offerings include products from Hewlett Packard (HPE)/Aruba, Cisco Systems, Palo Alto Networks, Nutanix, Dell EMC, Juniper Networks, Citrix, Intel, VMWare, Fortinet, Microsoft and Barracuda. Through our business relationships with these vendors, we are able to offer competitively priced robust products to meet our diverse customers' technology needs, providing procurement and engineering expertise in server infrastructure, storage, security, unified communications, mobility and networking, to the small-to-medium sized businesses ("SMBs") and large enterprise businesses ("LEBs") with unique and/or complex IT environments. 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 offer our customers a single point of contact for complicated multi-vendor technology purchases. We also provide installation, integration, logistical assistance and other value-added services that customers may require. We target SMB and LEB customers across all industries. Our current customers are in web and infrastructure hosting, education, telecommunications, healthcare services, distribution, financial services, professional services and manufacturing.

***Professional Services***

We provide professional IT consulting services in the following areas:

- Assessments, planning, designing, implementation, migration, optimization services and project management.

- Hyper-Converged Infrastructure ("HCI"). We assist our clients with designing and implementing HCI solutions from multiple vendors including DellEMC, Nutanix, HPE and Cisco. HCI is a software-centric architecture that tightly integrates compute, storage and virtualization resources in a single system. The benefits of an HCI solution are improved performance, scalability and flexibility all in a reduced footprint.

- Virtualization. We help our customers implement virtualization solutions using products from companies such as VMWare, Nutanix and Citrix that allow one computer to do the job of multiple computers by sharing resources of a single computer across multiple environments. Virtualization eliminates physical and geographical limitations and enables users to host multiple operating systems and applications on fewer servers. Benefits include energy cost savings, lower capital expenditure requirements, high availability of resources, better desktop management, increased security and improved disaster recovery.

- Enterprise security intrusion prevention, network access control and unified threat management. Using third-party products from companies like Palo Alto, Aruba Networks, Juniper Networks, Fortinet, Barracuda 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, using Cisco Systems and Microsoft solutions. We are Cisco Premier Partner approved for its Cloud and Managed Services Program for Managed Business Communications and a Microsoft Gold Partner with specialties in Cloud, and Collaboration solutions.

- Wireless, routing, and switching solutions using Juniper Networks 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.

- Optimization, maintenance and technical support for third-party products including hardware and software, operating system and user support.

***Managed IT and Cloud Services***

As consumption models continue to evolve in our industry, we have developed a robust managed and cloud services portfolio to provide alternative solutions to traditional capital expenditure investments in IT solutions and IT operations for our clients. Our value is to provide an elastic offering that will allow the client to scale and consume these offerings with monthly billing options that help control costs and provide economies of scale.

We provide managed and cloud services in the following areas:

- Proactive monitoring and remote management of IT Infrastructure that includes network (both wired and wireless), data center (which includes compute, storage and virtualization), desktops, unified communications platforms and security.

- Managed and Hosted Unified Communication as a Service via a Cisco Communication and Collaboration solution under an annuity program.

- Managed Security (firewall, endpoint protection, malware, anti-virus Managed Detection & Response).

- Managed BackUp and Replication.

- Cloud services that include Microsoft 365, Azure, Azure Virtual Desktop, Greencloud, Amazon Web Services and Google Cloud Platform.

**Markets and Marketing**

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 professional IT 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. and the U.K. using our direct sales force.

**Competition**

Our primary competition in the TS segment are other VARs ranging from small companies that number in the thousands, to large enterprises such as CDW, PC Connection, Insight, Presidio, Dimension Data, and Computacenter Limited. In addition, we compete directly with many of the companies that manufacture the third-party products we sell, including Cisco Systems, IBM, HPE, EMC (now part of Dell) 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 also include such national 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 meet the 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 professional IT services required to design and implement custom IT solutions to address our customers' IT needs are distinct competitive advantages. Unfavorable competitive factors include low name recognition, limited geographic coverage and pricing.

**Sources and Availability of Product**

Several components used in our HPP segment products are obtained from sole-source suppliers. We are dependent on key vendors such as Xilinx, NXP, NVIDIA, and BCRM for a variety of processors for certain products. While we believe that many of our competitors face similar supply chain risks, we continue to work closely with our long term suppliers in meeting our projected sales obligations; however, if a long term supplier is unable to provide sufficient components, and we are unable to find alternative suppliers, our projected sales may be materially impacted.

**Backlog**

The gross backlog of customer orders and contracts for the TS segment was approximately $7.5 million at September 30, 2023, as compared to $18.2 million at September 30, 2022. Our backlog can fluctuate greatly and in the prior year there were supply chain issues which caused a relatively large backlog compared to historical years. 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 2024.

**HPP Segment**

**Products and Services**

The mission of the HPP team is to deliver a differentiated, smarter approach to cybersecurity. Our software-defined platform makes it easier for organizations to achieve enterprise-wide network security with a focus on the protection of critical assets, applications and devices from cyberattacks.

**Markets and Marketing**

***Cyber Security Products Market***

The ARIA SDS solution is targeted at organizations that need to get additional functionality out of their current cybersecurity solutions to find and stop attacks, while also reducing their operating costs. At the present time, our ARIA solutions are primarily offered through our direct sales channel, however with ARIA AZT PROTECT's introduction we have begun to add channel partners such as independent resellers.

OEM vendors in the cybersecurity market can benefit from integrating the ARIA applications and leveraging them as internal solutions to allow their applications to scale, and add critical functionality. OEMs are interested in running our ARIA SDS applications on their SmartNIC and other ARM-core based platforms.

As mentioned, MSSPs require simple, yet differentiated, solutions that can be deployed across their customer bases. The detection, and automation capabilities found in ARIA solutions are valuable as they allow these security service providers to scale their offerings while increasing the productivity of their security operation center staff.

***Manufacturing Market***

Our focus for fiscal 2024 and beyond is to expand from our initial successes more broadly into this market and its various sub segments.

***Energy/Utility Market***

We believe our AZT PROTECT product is well suited to address a critical security gap in this market. Noting that sales cycles can be up to 1 year.

**Competition**

CSPi's competition in the cybersecurity space comes primarily from the large, traditional security vendors like Palo Alto, VMWare and security services providers like Artic Wolf.

**Manufacturing, Assembly and Testing**

Currently, products are shipped to our customers directly from our plant in Lowell, Massachusetts.

**Research and Development**

For the year ended September 30, 2023, our expenses for R&D were approximately $3.1 million compared to approximately $3.1 million for the year ended September 30, 2022. Expenditures for R&D are expensed as they are incurred. Product development efforts in fiscal year 2022 and 2023 involved development of the ARIA product set, ARIA Zero Trust (AZT), and enhancements to our ADR product offering. We expect to continue to make investments related to the development of new hardware adapter products and new cybersecurity software applications.

**Intellectual Property**

We rely on a combination of trademark and trade secret laws in the United States and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property rights. We have newly issued as well as pending patents for the ARIA AZT PROTECT™ software and will be pursuing additional patent rights over time.

**Backlog**

The gross backlog of customer orders and contracts in the HPP segment was $1.8 million as of September 30, 2023 as compared to $5.0 million as of September 30, 2022. Our backlog can fluctuate greatly. We can experience large fluctuations due to the timing of receipt of large orders often for purchases from prime contractors for sales to the government. It is expected nearly all of the customer orders in backlog will ship and/or be provided through fiscal year 2024.

**Significant Customers**

See *Note 17 Segment Information* in the notes to the consolidated financial statements for detailed information regarding customers which comprised more than 10% of consolidated revenues for the years ended September 30, 2023 and 2022.

**Employees**

As of September 30, 2023, we had approximately 112 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.

**Company Website**

The United States Securities and Exchange Commission ("SEC") maintains an internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The Company's internet address is http://www.cspi.com. Through that address, the Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available free of charge as soon as reasonably practicable after they are filed with the SEC. The information contained on the Company's website is not included in, nor incorporated by reference into, this annual report on Form 10-K.

**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 rendered are in *Note 17 Segment Information* of 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 its, 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.*

**Economic, Industry, and Operational Risks**

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

Both the HPP and TS segments are reliant upon a small number of significant customers, and the loss of or significant reduction in sales to any one of which could have a material adverse effect on our business. For the fiscal year ended September 30, 2023, no one customer accounted for 10% or more of our total revenues for the fiscal year. For the fiscal year ended September 30, 2022, one customer accounted for $10.4 million, or 19%, of our total revenues for the fiscal year. 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 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 skills that keep pace with continuing changes in our industry standards and technologies. The inability to hire additional qualified personnel could impair our ability to satisfy or grow our client base. There can be no assurance that we will be successful in retaining current or future employees.

*Our success depends in part on our timely introduction of new products and technologies and our results can be impacted by the effectiveness of our significant investments in new products and technologies*

We have made significant investments in our ARIA SDS cyber security products and services that may not achieve expected returns. We will continue to make significant investments in research, development, and marketing for ARIA products, services, and technologies. Commercial success depends on many factors, including innovativeness, developer support, and effective distribution and marketing. If customers do not perceive our latest offerings as providing significant new functionality or other value, they may reduce their purchases of new software and hardware products or upgrades, unfavorably affecting revenue. We may not achieve significant revenue from new product, service, and distribution channel investments for several years. New products and services may not be profitable, and even if they are profitable, operating margins for some new products and businesses may not be as high as the margins we have experienced historically. Developing new technologies and products is complex. It can require long development and testing periods.

Significant delays in new releases or significant problems in creating new products or services could adversely affect our revenue.

*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.

*The complexity of our products, particularly in the HPP segment, could result in unforeseen delays or expense or undetected defects or bugs, which could adversely affect the market acceptance of new products, damage our reputation with current or prospective customers, and materially and adversely affect our operating costs.*

Highly complex products, such as those we offer, may contain defects and bugs when they are first introduced or as new versions, software documentation or enhancements are released, or their release may be delayed due to unforeseen difficulties during product development. If any of our products or third-party components used in our products, contain defects or bugs, or have reliability, quality or compatibility problems, we may not be able to successfully design workarounds. Furthermore, if any of these problems are not discovered until after we have commenced commercial production or deployment of a new product, we may be required to incur additional development costs and product recall, repair or replacement costs. Significant technical challenges also arise with our software products because our customers license and deploy our products across a variety of computer platforms and integrate them with a number of third-party software applications and databases. As a result, if there is system-wide failure or an actual or perceived breach of information integrity, security or availability occurs in one of our end-user customer's system, it can be difficult to determine which product is at fault and we could ultimately be harmed by the failure of another supplier's product. Consequently, our reputation may be damaged and customers may be reluctant to buy our products, which could materially and adversely affect our ability to retain existing customers and attract new customers. To resolve these problems, we may have to invest significant capital and other resources and we would likely lose, or experience a delay in, market acceptance of the affected product or products. These problems may also result in claims against us by our customers or others. For example, if a delay in the manufacture and delivery of our products causes the delay of a customer's end-product delivery, we may be required, under the terms of our agreement with that customer, to compensate the customer for the adverse effects of such delays. As a result, our financial results could be materially adversely affected.

*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 NVIDIA for our high-speed interconnect components. Generally, suppliers may terminate our purchase orders without cause upon 30 days' notice and may cease offering products to us upon 180 days' notice. To the extent our key vendors, such as NVIDIA 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, 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, pandemics, government shutdowns 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 operation is 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. Foreign-based revenue is determined based on the location to which the product is shipped or services are rendered and represented 3% and 4% of our total revenue for the fiscal years ended September 30, 2023 and 2022, respectively. If revenues generated by foreign activities are not adequate to offset the expense of establishing and maintaining these foreign 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. In particular, it is possible activity in the United Kingdom and the rest of Europe will be adversely impacted and that we will face increased regulatory and legal complexities, including those related to tax, trade, and employee relations as a result of Brexit. 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 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 could have a material adverse effect on our business, financial condition and results of operations.

*Pandemics, epidemics or disease outbreaks, such as the novel coronavirus ("COVID-19"), may materially adversely affect our business, results of operations, cash flows and financial condition.*

Pandemics, epidemics, or disease outbreaks, such as COVID-19 may cause harm to us, our employees, our clients, our vendors and supply chain partners, and financial institutions, which could have a material adverse effect on our business, results of operations, cash flows, and financial condition. The impact of a pandemic, epidemic, or other disease outbreak, such as COVID-19, may include, but would not be limited to: (i) disruption to operations due to the unavailability of employees due to illness, quarantines, risk of illness, travel restrictions or factors that limit our existing or potential workforce; (ii) volatility in the demand for or availability of our products and services, (iii) inability to meet our customers' needs due to disruptions in the manufacture, sourcing and distribution of our products and services, or (iv) failure of third parties on which we rely, including our suppliers, clients, and external business partners, to meet their obligations to us, or significant disruptions in their ability to do so.

**Government Contracting Risks**

*We depend on contracts with the federal government, primarily with the Department of Defense ("DoD"), for a 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 2023 and 2% of our total revenue in fiscal year 2022 from the 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, it could 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 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.

**Intellectual Property and Systems Risks**

*We may be unsuccessful in protecting our intellectual property rights which could result in the loss of a competitive advantage.*

Our ability to compete effectively against other companies in our industry depends, in part, on our ability to protect our current and future proprietary technology under patent, copyright, trademark, trade secret and unfair competition laws. We cannot assure that our means of protecting our proprietary rights in the United States or abroad will be adequate, or that others will not develop technologies similar or superior to our technology or design around our proprietary rights. In addition, we may incur substantial costs in attempting to protect our proprietary rights.

Also, despite the steps taken by us to protect our proprietary rights, it may be possible for unauthorized third parties to copy or reverse-engineer aspects of our products develop similar technology independently or otherwise obtain and use information that we regard as proprietary and we may be unable to successfully identify or prosecute unauthorized uses of our technology. Furthermore, with respect to our issued patents and patent applications, we cannot assure that patents from any pending patent applications (or from any future patent applications) will be issued, that the scope of any patent protection will include competitors or provide competitive advantages to us, that any of our patents will be held valid if subsequently challenged or that others will not claim rights in or ownership of the patents (and patent applications) and other proprietary rights held by us.

*If we become subject to intellectual property infringement claims, we could incur significant expenses and could be prevented from selling specific products.*

We may become subject to claims that we infringe the intellectual property rights of others in the future. We cannot assure that, if made, these claims will not be successful. Any claim of infringement could cause us to incur substantial costs defending against the claim even if the claim is invalid and could distract management from other business. Any judgment against us could require substantial payment in damages and could also include an injunction or other court order that could prevent us from offering certain products.

*We need to continue to expend resources on research and development ("R&D") efforts in 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.*

Our industry requires a continued investment in R&D. 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. Further, if we fail to invest sufficiently in R&D or our R&D does not produce competitive results, our products may become less attractive to our customers or potential customers, which could materially harm our business and results of operations.

*Our need for continued or increased investment in research and development may increase expenses and reduce our profitability.*

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

*Our results of operations are subject to fluctuation from period to period and may not be an accurate indication of future performance.*

We have experienced fluctuations in operating results in large part due to the sale of products and services in relatively large dollar amounts to a relatively small number of customers. Customers specify delivery date requirements that coincide with their need for our products and services. Because these customers may use our products and services in connection with a variety of defense programs or other projects with different sizes and durations, a customer's orders for one quarter generally do not indicate a trend for future orders by that customer. As such, we have not been able in the past to consistently predict when our customers will place orders and request shipments so that we cannot always accurately plan our manufacturing, inventory, and working capital requirements. As a result, if orders and shipments differ from what we predict, we may incur additional expenses and build excess inventory, which may require additional reserves and allowances and reduce our working capital and operational flexibility. Any significant change in our customers' purchasing patterns could have a material adverse effect on our operating results and reported earnings per share for a particular quarter. Thus, results of operations in any period should not be considered indicative of the results to be expected for any future period.

Our quarterly results may be subject to fluctuations resulting from a number of other factors, including:

- delays in completion of internal product development projects;
- delays in shipping hardware and software;
- delays in acceptance testing by customers;
- a change in the mix of products sold to our served markets;
- changes in customer order patterns;
- production delays due to quality problems with outsourced components;
- inability to scale quick reaction capability products due to low product volume;
- shortages and costs of components;
- the timing of product line transitions;
- declines in quarterly revenues from previous generations of products following announcement of replacement products containing more advanced technology;
- inability to realize the expected benefits from acquisitions and restructurings, or delays in realizing such benefits;

- potential asset impairment, including goodwill and intangibles, write-off of deferred tax assets or restructuring charges; and

- changes in estimates of completion on fixed price service engagements.

In addition, from time to time, we have entered into contracts, referred to as development contracts, to engineer a specific solution based on modifications to standard products. Gross margins from development contract revenues are typically lower than gross margins from standard product revenues. We intend to continue to enter into development contracts and anticipate that the gross margins associated with development contract revenues will continue to be lower than gross margins from standard product sales.

Another factor contributing to fluctuations in our quarterly results is the fixed nature of expenditures on personnel, facilities and marketing programs. Expense levels for these programs are based, in significant part, on expectations of future revenues. If actual quarterly revenues are below management's expectations, our results of operations will likely be adversely affected. Further, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, and changes in estimates in subsequent periods could cause our results of operations to fluctuate.

*If we experience a disaster or other business continuity problem, we may not be able to recover successfully, which could cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability.*

If we experience a local or regional disaster or other business continuity problem, such as a hurricane, earthquake, terrorist attack, pandemic or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. As we grow our operations, the potential for particular types of natural or man-made disasters, political, economic or infrastructure instabilities, or other country- or region-specific business continuity risks increases.

*If we suffer any data breaches involving the designs, schematics, or source code for our products or other sensitive information, our business and financial results could be adversely affected.*

We securely store our designs, schematics, and source code for our products as they are created. A breach, whether physical, electronic or otherwise, of the systems on which this sensitive data is stored could lead to damage or piracy of our products. If we are subject to data security breaches from external sources or from an insider threat, we may have a loss in sales or increased costs arising from the restoration or implementation of additional security measures, either of which could adversely affect our business, financial condition, and results of operations. Other potential costs could include loss of brand value, incident response costs, loss of stock market value, regulatory inquiries, litigation, and management distraction. In addition, a security breach that involved classified information could subject us to civil or criminal penalties, loss of a government contract, loss of access to classified information, or debarment as a government contractor. Similarly, a breach that involved loss of customer-provided data could subject us to loss of a customer, loss of a contract, litigation costs and legal damages, and reputational harm.

*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 and reputational harm as a security provider. 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 help us minimize or 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.

*Our business, financial condition and results of operations could be adversely affected by disruptions in the global economy caused by the ongoing conflict between Russia and Ukraine.*

The global economy has been negatively impacted by the military conflict between Russia and Ukraine. Furthermore, governments in the United States, United Kingdom and European Union have each imposed export controls on certain products and financial and economic sanctions on certain industry sectors and parties in Russia. Although we do not have significant customers or suppliers in Russia or Ukraine, we do have customers and suppliers in surrounding regions which may be affected. Further escalation of Russian-Ukraine military conflict and geopolitical tensions related to such military conflict, including increased trade barriers or restrictions on global trade, could result in, among other things, cyber attacks, supply disruptions, lower consumer demand, and changes to foreign exchange rates and financial markets, any of which may adversely affect our business, financial condition and results of operations. The effects of the ongoing conflict could heighten many of our known risks described in these "Risk Factors.”

*Our business, financial condition and results of operations could be adversely affected by disruptions in the global economy caused by the ongoing conflict between Israel and Hamas.*

The global economy has been negatively impacted by the military conflict between Israel and Hamas. There could be an expansion of the countries involved, which could lead to significant detrimental effects to the global economy. Although we do not have significant customers or suppliers in the Middle East region, we do have customers and suppliers in surrounding regions which may be affected. Further escalation of the Israel and Hamas conflict and geopolitical tensions related to such military conflict, including increased trade barriers or restrictions on global trade, could result in, among other things, cyber attacks, supply disruptions, lower consumer demand, and changes to foreign exchange rates and financial markets, any of which may adversely affect our business, financial condition and results of operations. The effects of the ongoing conflict could heighten many of our known risks described in these "Risk Factors.”

**Legal and Regulatory Risks.**

*Changes in regulations could materially adversely affect us.*

Our business, results of operations, or financial condition could be materially adversely affected if laws, regulations, or standards relating to us or our products are newly implemented or changed. In addition, our compliance with existing regulations may have a material adverse impact on us. Under applicable federal securities laws, we are required to evaluate and determine the effectiveness of our internal control structure and procedures. If we have a material weakness in our internal controls, our results of operations or financial condition may be materially adversely affected, or our stock price may decline.

**Risks Related to Ownership of Our Common Stock**

*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;
- inflationary pressures;
- 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. If any shareholder were to issue a lawsuit, we could incur substantial costs defending the lawsuit and the attention of management could be diverted.

## Item 2. *Properties*

Listed below are our principal facilities as of September 30, 2023. 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 |
|---|---|---|---|
| **TS Segment Properties:** | | | |
| Modcomp, Inc. | Division Headquarters | Leased | 11,815 S.F. |
| 1182 East Newport Center Drive | Sales, Marketing and | | |
| Deerfield Beach, FL 33442 | Administration | | |
| | | | |
| Modcomp, Ltd. | Sales, Marketing and | Leased | 484 S.F. |
| Indigo House, Mulberry Business Park | Administration | | |
| Wokingham, Berkshire RG41 2GY | | | |
| United Kingdom | | | |
| | | | |
| **HPP Segment Properties:** | | | |
| CSP Inc. | Corporate Headquarters | Leased | 8,257 S.F. |
| 175 Cabot Street, Suite 210 | Manufacturing, Sales, | | |
| Lowell, MA 01854 | Marketing and | | |
| | Administration | | |

## 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.

| | 2023 | | 2022 | |
|---|---|---|---|---|
| **Fiscal Year:** | **High** | **Low** | **High** | **Low** |
| 1st Quarter | $ 9.45 | $ 7.01 | $ 9.30 | $ 8.09 |
| 2nd Quarter | $ 13.59 | $ 9.43 | $ 8.94 | $ 6.99 |
| 3rd Quarter | $ 14.80 | $ 10.50 | $ 9.68 | $ 6.81 |
| 4th Quarter | $ 23.59 | $ 10.15 | $ 8.95 | $ 7.12 |

*Stockholders*. We had approximately 63 holders of record of our common stock as of December 6, 2023. 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 1,891.

*Dividends*. For the fiscal years ended September 30, 2023 and 2022 the Company paid cash dividends as follows:

| Fiscal Year | Date Declared | Record Date | Date Paid | Amount Paid Per Share |
|---|---|---|---|---|
| 2022 | 8/10/2022 | 8/22/2022 | 9/9/2022 | $ 0.03 |
| 2023 | 12/6/2022 | 12/21/2022 | 1/6/2023 | $ 0.03 |
| 2023 | 2/8/2023 | 2/24/2023 | 3/14/2023 | $ 0.03 |
| 2023 | 5/10/2023 | 5/25/2023 | 6/13/2023 | $ 0.04 |
| 2023 | 8/9/2023 | 8/23/2023 | 9/12/2023 | $ 0.04 |

**Item 6.** *[Reserved]*

**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 contain 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.*

*Recent trends affecting our financial performance*

As of September 30, 2023, the Russian/Ukrainian military conflict and the Israeli-Hamas conflict has not had a direct significant impact on revenue as we do not have any recurring customers in either region. However, we do have customers and suppliers in surrounding regions which may be affected and further escalation of both conflicts and geopolitical tensions related to such conflicts could adversely affect our business, financial condition and results of operations, by among other things, cyber attacks, supply disruptions, lower consumer demand, and changes to foreign exchange rates and financial markets. It is not possible at this time to predict the size of the impact or consequences of the conflicts on the Company and our customers or suppliers.

***Overview of Fiscal 2023 Results of Operations***

Revenue increased by approximately $10.2 million, or 19%, to $64.6 million for the fiscal year ended September 30, 2023 versus $54.4 million for the fiscal year ended September 30, 2022.

Gross profit margin percentage decreased slightly to 34% for the fiscal year ended September 30, 2023 from 35% of revenues for the fiscal year ended September 30, 2022.

We generated an operating income of $1.8 million for the fiscal year ended September 30, 2023 as compared to an operating loss of $(40) thousand for the fiscal year ended September 30, 2022.

Other income, net was $2.9 million for the fiscal year ended September 30, 2023 as compared to $2.0 million for the prior year.

The Company recorded an income tax benefit of $(469) thousand, which reflected an effective tax rate of (9.9)%, for the fiscal year ended September 30, 2023 compared to an income tax provision of $50 thousand, which reflected an effective tax rate of 2.6% for the fiscal year ended September 30, 2022.

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

| | September 30, 2023 | % of sales | September 30, 2022 | % of sales |
|---|---|---|---|---|
| | (Dollar amounts in thousands) | | | |
| Sales | $ 64,647 | 100 % | $ 54,361 | 100 % |
| Costs and expenses: | | | | |
| Cost of sales | 42,727 | 66 % | 35,534 | 65 % |
| Engineering and development | 3,140 | 5 % | 3,084 | 6 % |
| Selling, general and administrative | 16,910 | 26 % | 15,783 | 29 % |
| Total costs and expenses | 62,777 | 97 % | 54,401 | 100 % |
| Operating income (loss) | 1,870 | 3 % | (40) | — % |
| Other income, net | 2,865 | 4 % | 1,979 | 4 % |
| Income before income taxes | 4,735 | 7 % | 1,939 | 4 % |
| Income tax (benefit) expense | (469) | (1)% | 50 | — % |
| Net income | $ 5,204 | 8 % | $ 1,889 | 4 % |

***Revenues***

Revenue increased by approximately $10.2 million, or approximately 19%, to $64.6 million for the fiscal year ended September 30, 2023 versus $54.4 million for the fiscal year ended September 30, 2022.

TS segment revenue changes by products and services for the fiscal years ended September 30 2023 and 2022 were as follows:

| | September 30, | | Increase (decrease) | |
|---|---|---|---|---|
| | 2023 | 2022 | $ | % |
| | (Dollar amounts in thousands) | | | |
| Products | $ 41,674 | $ 34,172 | $ 7,502 | 22 % |
| Services | 16,100 | 16,346 | (246) | (2)% |
| Total | $ 57,774 | $ 50,518 | $ 7,256 | 14 % |

Our TS segment revenue increased by approximately $7.3 million consisting of an increase of $7.1 million in our U.S. division combined with an increase of $0.2 million in our U.K. division. The increase in TS segment product revenue of $7.5 million during the period was the result of a $7.3 million increase in the U.S. division combined with an increase of $0.2 million in the U.K. division. As the economic environment returns to pre-pandemic levels it has led to customers' budgets not being as constrained as prior year leading to increased sales in the U.S. division and U.K. division. Additionally, there have been less shortages with suppliers causing less delays and our backlog has significantly decreased from the prior year. The increase in our U.S. division product revenue year over year was primarily associated with several major customers, partially offset by a decrease with several other customers. The increase in the U.K. division year over year was primarily associated with an increase with one major customer. The decrease in TS segment service revenue of $0.2 million as compared to the prior year was in the U.S. division. In fiscal year 2023 as compared to the prior year, the U.S. division had a decrease of $0.9 million in internal services and a decrease of $0.7 million in third party maintenance revenue, partially offset by an increase of $1.4 million in managed services.

HPP segment revenue changes by product and services for the fiscal years ended September 30 2023 and 2022 were as follows:

| | September 30, | | Increase | |
|---|---|---|---|---|
| | 2023 | 2022 | $ | % |
| | (Dollar amounts in thousands) | | | |
| Products | $ 5,475 | $ 2,516 | $ 2,959 | 118 % |
| Services | 1,398 | 1,327 | 71 | 5 % |
| Total | $ 6,873 | $ 3,843 | $ 3,030 | 79 % |

Our HPP segment revenue increased by approximately $3.0 million or 79%. The increase in HPP product revenue of $3.0 million in the fiscal year ended September 30, 2023 was primarily the result of two major non-recurring transactions of $1.8 million and $1.2 million for the fiscal year ended September 30, 2023 as compared to the fiscal year ended September 30, 2022. The increase in HPP service revenue of approximately $0.1 million for the fiscal year ended September 30, 2023 was primarily the result of a $0.4 million increase in AIRA revenue, partially offset with a decrease of $0.3 million in royalty revenues on high-speed processing boards related to the E2D program as compared to the fiscal year ended September 30, 2022.

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

| | September 30, | | | | Increase (decrease) | |
|---|---|---|---|---|---|---|
| | 2023 | % | 2022 | % | $ | % |
| | (Dollar amounts in thousands) | | | | | |
| Americas | $ 62,763 | 97 % | $ 52,486 | 96 % | $ 10,277 | 20 % |
| Europe | 1,429 | 2 % | 1,407 | 3 % | 22 | 2 % |
| Asia | 455 | 1 % | 468 | 1 % | (13) | (3)% |
| Totals | $ 64,647 | 100 % | $ 54,361 | 100 % | $ 10,286 | 19 % |

The $10.3 million increase in the Americas revenue for the fiscal year ended September 30, 2023 as compared to the fiscal year ended September 30, 2022 was primarily due to increased revenue by our TS-US division of approximately $7.3 million combined with an increase of $3.0 million attributable to the HPP segment. Sales to Europe remained relatively flat with an increase of $0.1 million in the TS-US division, offset with a decrease in the TS-UK division of $0.1 million. Sales to Asia remained relatively flat with no significant changes in any division.

***Gross Margins***

Our gross margin ("GM") increased by $3.1 million to $21.9 million for fiscal year 2023 as compared to GM of approximately $18.8 million for fiscal year 2022. The total GM as a percentage of revenue decreased to 34% for fiscal year 2023 from 35% for fiscal year 2022.

The following table summarizes GM changes by segment for fiscal years ended September 30:

| | September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | Increase (decrease) | |
| | | | (Dollar amounts in thousands) | | | |
| | GM$ | GM% | GM$ | GM% | GM$ | GM% |
| TS | $ 17,666 | 31 % | $ 16,879 | 33 % | $ 787 | (2)% |
| HPP | 4,254 | 62 % | 1,948 | 51 % | 2,306 | 11 % |
| Total | $ 21,920 | 34 % | $ 18,827 | 35 % | $ 3,093 | (1)% |

The impact of product mix within our TS segment on gross margins for the fiscal years ended September 30 was as follows:

| | September 30, | | | | Increase (decrease) | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | GM$ | GM% | GM$ | GM% | GM$ | GM% |
| | (Dollar amounts in thousands) | | | | | |
| Products | $ 8,197 | 20 % | $ 6,818 | 20 % | $ 1,379 | — % |
| Services | 9,469 | 59 % | 10,061 | 62 % | (592) | (3)% |
| Total | $ 17,666 | 31 % | $ 16,879 | 33 % | $ 787 | (2)% |

The overall TS segment GM as a percentage of revenue decreased to 31% in fiscal year 2023 from 33% in fiscal year 2022. The $1.4 million GM increase in our TS segment product GM in fiscal year 2023 as compared to the prior year resulted from an increase in the U.S. division. Product GM as a percentage of revenue remained relatively flat for fiscal year 2023 compared to fiscal year 2022 with no significant changes in any specific type of product. The $0.6 million decrease in our TS segment service GM in fiscal year 2023 as compared to the prior year resulted from a decrease in GM in the U.S. division. Service GM as a percentage of revenue decreased to 59% in fiscal year 2023 from 62% in fiscal year 2022 due to decreased third party maintenance revenue as discussed above, which is recorded as net sales meaning all the gross margin is recorded in the services revenue financial statement line item causing increased GM as a percentage of revenue.

The impact of product mix on gross margins within our HPP segment for the fiscal years ended September 30 was as follows:

| | September 30, | | | | Increase (decrease) | |
|---|---|---|---|---|---|---|
| | 2023 | | 2022 | | | |
| | | | (Dollar amounts in thousands) | | | |
| | GM$ | GM% | GM$ | GM% | GM$ | GM% |
| Products | $ 3,428 | 63 % | $ 893 | 35 % | $ 2,535 | 28 % |
| Services | 826 | 59 % | 1,055 | 80 % | (229) | (21)% |
| Total | $ 4,254 | 62 % | $ 1,948 | 51 % | $ 2,306 | 11 % |

The overall HPP segment GM as a percentage of revenue increased to 62% in fiscal year 2023 from 51% in fiscal year 2022. The GM as a percentage of sales from products increased 28% primarily due to two major non-recurring transactions in fiscal year 2023 when compared to fiscal year 2022 as discussed above. The GM as a percentage of sales from services decreased 21% primarily due to a relatively significant decrease of high margin Multicomputer royalty revenues, which is nearly all GM and recorded as service revenue.

***Engineering and Development Expenses***

Our engineering and development expenses are only in our HPP segment. These expenses remained relatively flat at $3.1 million for fiscal year 2023 and $3.1 million for fiscal year 2022. There were increased consulting expenses of $0.4 million, offset by decreased labor expenses of $0.4 million of labor expenses in fiscal year 2023 when compared to fiscal year 2022. Fiscal year 2023 and 2022 expenses were primarily for product engineering expenses incurred in connection with the development of the ARIA SDS cyber security products and ARIA Zero Trust (AZT).

***Selling, General and Administrative***

The following table details our selling, general and administrative ("SG&A") expenses by operating segment for the years ended September 30, 2023 and 2022:

| | Year ended September 30, | | | | $ | % |
|---|---|---|---|---|---|---|
| | 2023 | % of Total | 2022 | % of Total | Increase | Increase |
| | (Dollar amounts in thousands) | | | | | |
| **By Operating Segment:** | | | | | | |
| TS segment | $ 13,089 | 77 % | $ 12,032 | 76 % | $ 1,057 | 9 % |
| HPP segment | 3,821 | 23 % | 3,751 | 24 % | 70 | 2 % |
| Total | $ 16,910 | 100 % | $ 15,783 | 100 % | $ 1,127 | 7 % |

The TS segment SG&A spending increase of approximately $1.1 million for the fiscal year ended September 30, 2023 when compared to the prior year was primarily due to an increase in salaries of $0.6 million, an increase in variable compensation of $0.3 million, and an increase in travel expenses of $0.2 million.

The HPP segment SG&A spending increase of $0.1 million for the fiscal year ended September 30, 2023 when compared to the prior year was primarily attributed to increased variable compensation.

***Other Income/Expenses***

The following table details our other income (expense) for the years ended September 30, 2023 and 2022:

| | Year ended | | Increase |
|---|---|---|---|
| | September 30, 2023 | September 30, 2022 | (Decrease) |
| | (Amounts in thousands) | | |
| Foreign exchange (loss) gain | $ (581) | $ 1,692 | $ (2,273) |
| Interest expense | (262) | (360) | 98 |
| Interest income | 1,460 | 650 | 810 |
| Employee Retention Tax Credit, net of costs to collect | 2,136 | — | 2,136 |
| Other income (expense), net | 112 | (3) | 115 |
| Total other income, net | $ 2,865 | $ 1,979 | $ 886 |

For the year ended September 30, 2023 the foreign exchange loss decreased $2.3 million primarily due to the U.S. dollar significantly weakening against the British pound in fiscal year 2023 compared to the prior year where it significantly strengthened. The U.K. division has bank accounts with U.S. dollars and Euros. In consolidation, U.S. dollars and Euros are remeasured into the functional currency, British Pounds, of our U.K. subsidiary. This non-cash remeasurement is included in foreign exchange gain or loss on the income statement and the foreign exchange gain or loss is primarily from a U.S. Dollar and Euro bank account. The U.S. Dollar bank account consists of approximately 95% of the non-British Pound currency held in the U.K. subsidiary.

Interest expense decreased $98 thousand for the year ended September 30, 2023 as compared to the prior year period is due to less interest expense on loans on whole life insurance policies on officers as $0.9 million was paid back in fiscal year 2022 causing less interest to be incurred in fiscal year 2023. Additionally, there was decreased interest expense related to multi-year agreements with vendors in the TS U.S. division. Payments on these agreements contain both principal and interest expense. As principal payments are made the interest expense decreases. See *Note 8 Accounts payable and accrued expenses, and Other noncurrent liabilities* in Item 1 to this Annual Report on Form 10-K.

Interest income increased $0.8 million for the year ended September 30, 2023 when compared to the prior year. Interest income is primarily related to agreements that have payment terms in excess of one year (see *Note 2 Accounts and Long-Term Receivable* in Item 1 to this Annual Report on Form 10-K for details) from the TS-US segment. There were three new agreements in fiscal year 2023, which caused an increase in interest income. Additionally, interest income from cash and cash equivalents increased significantly from prior year due to substantially increased interest rates during fiscal year 2023.

The Employee Retention Tax Credit, net of costs to collect of $2.1 million was recognized in the fourth quarter of fiscal year 2023. The Coronavirus Aid, Relief, and Economic Security Act provided an Employee Retention Credit ("ERC") which is a refundable tax credit against certain employment taxes. The Consolidated Appropriations Act, 2021 extended and expanded the availability of the employee retention credit through December 31, 2021 including amending the employee retention credit to be equal to 70% of qualified wages paid to employees during the 2021 calendar year. Both the TS-US division and HPP segment qualified for the ERC beginning in March 2021 for qualified wages through September 2021. There are no other amounts that will be received related to this credit.

The other income increase of $115 thousand for the year ended September 30, 2023 as compared to the prior year period is primarily related to a vendor settlement related to one specific agreement.

***Income Taxes***

The Company recorded an income tax benefit of $(469) thousand, which reflected an effective tax rate of (9.9)%, for the fiscal year ended September 30, 2023. The provision is primarily driven by the benefit recognized as a result of the release of the valuation allowance against the majority of the Company's deferred tax assets. The benefit recorded during the fiscal year equaled $1.8 million for valuation allowances released on deferred tax assets related to prior years. The Company also claimed and received the Employee Retention Credit.

For the fiscal year ended September 30, 2022, the income tax provision was approximately $50 thousand, which reflected an effective tax rate of 2.6%. The provision is primarily driven by the state tax expense.

The Company undertakes a review of its valuation allowance at each financial statement period, reviewing the positive and negative evidence to help determine whether it is more likely than not that the Company will realize the future tax benefits from its deferred tax balances. In the year ended September 30, 2020, the Company established a partial valuation allowance against its deferred tax assets in light of results at the time, the COVID-19 pandemic, and the resulting economic fallout, and established a full valuation during the year ended September 30, 2021. Since that time, the COVID-19 pandemic has ended, and the Company's Technology Solutions business has grown its revenue and operating income in fiscal years 2023 and 2022.

As a result, the Company has determined that it is more likely than not that substantially all of its net deferred tax assets in the U.S. jurisdiction will be utilized and that associated valuation allowances should be reversed during year ended September 30, 2023. The valuation reversed during the period resulted in a $1.8 million benefit. The Company separately analyzed the realizability of its federal and state credits and determined $710 thousand (net of federal benefit) of state credits are expected to expire unutilized and kept a valuation allowance against these credits. The Company will continue to maintain a valuation allowance against certain state tax credits in the U.S. and a full valuation allowance against the net deferred tax assets in the U.K. jurisdiction.

**Liquidity and Capital Resources**

*Cash Flows*

Our primary source of liquidity and capital resources is our cash from operations and our line of credit.

Cash and cash equivalents increased by $1.2 million to $25.2 million as of September 30, 2023 from $24.0 million as of September 30, 2022.

The following is a summary of our cash flows for the fiscal year ended September 30, 2023 and 2022:

| (Dollar amounts in thousands) | For the Year ended September 30, 2023 | 2022 |
|---|---|---|
| | (Dollar amounts in thousands) | |
| **Net cash provided by (used in):** | | |
| Operating activities | $ 3,907 | $ 2,675 |
| Investing activities | (341) | 20 |
| Financing activities | (2,401) | 1,328 |
| Effect of exchange rate changes on cash | 70 | (48) |
| Increase in cash and cash equivalents | $ 1,235 | $ 3,975 |

*Operating Activities*

Cash provided by operating activities was $3.9 million for the year ended September 30, 2023 compared to $2.7 million for the prior year. The increase from prior year is primarily related to increased net income including recognizing $2.1 million from the Employee Retention Tax Credit, net of costs to collect in fiscal year 2023. Additionally, an amount of $0.9 million was paid back on insurance policy loans in the prior year, but did not recur this year. The remaining differences are primarily related to timing differences in operating assets and liabilities.

*Investing Activities*

Cash used in investing activities was $341 thousand for the year ended September 30, 2023 compared to $20 thousand provided by investing activities for the prior year. The decrease from the prior year is primarily related to $322 thousand we received in the prior year for proceeds from a corporate life insurance policy.

*Financing Activities*

Cash used in financing activities was $2.4 million for the year ended September 30, 2023 compared to $1.3 million provided by financing activities for the prior year. The primary difference was the timing in the net borrowing on the line-of-credit, which for the year ended September 30, 2023 we had a net payment of $1.6 million compared to a net borrowing of $2.2 million in the prior year.

We paid dividends of $0.7 million for the year ended September 30, 2023 compared to $0.1 million in the prior year. The dividend was suspended during fiscal year 2020 due to uncertainty from COVID-19 but was reinstated during the fourth quarter of fiscal year 2022 at $0.03 per share. The dividend was increased to $0.04 per share in the third quarter of fiscal year 2023.

Repayments on notes payable for the year ended September 30, 2023 were $0.4 million compared to $0.7 million in the prior year. There was only one note payable outstanding during fiscal year 2023 compared to two in fiscal year 2022.

***Other Liquidity and Capital Resources Items***

Our cash held by our foreign subsidiary in the United Kingdom totaled approximately $4.8 million as of September 30, 2023, which consisted of 0.2 million Euros, 0.3 million British Pounds, and 4.3 million U.S. Dollars. This cash is included in our total cash and cash equivalents reported within our financial statements. Due to the pension obligation in the U.K., we maintain a large balance of cash in the U.K.

As of September 30, 2023 and September 30, 2022, the Company maintained a line of credit with a capacity of up to $15.0 million for inventory accessible to both the HPP and TS segments. This line of credit also includes availability of a limited cash withdrawal of up to $1.0 million. Amounts of $13.5 million and $11.9 million were available as of September 30, 2023 and September 30, 2022, respectively. As of September 30, 2023 and September 30, 2022 there were no cash withdrawals outstanding. For a further discussion of the Company's line of credit, including its financial covenants, see Item 1, *Note 11 Line of Credit.*

We have multi-year agreements on both the receivables (including long-term) and payables (long-term portion in other noncurrent liabilities). Not all multi-year receivable agreements have a corresponding payable multi-year agreement. In fiscal year 2024 we are scheduled to receive $7.7 million related to the multi-year receivables and pay $1.7 million related to the payables. Our last payment on the note payable as of September 30, 2023 is scheduled for payment of $0.4 million in fiscal year 2024.

A subsequent review of qualified wages for the Employee Retention Credit was performed during the preparation of the tax provision for fiscal year 2023 and it was determined $0.6 million of the money received did not qualify and needs to be paid back to the Internal Revenue Service (IRS). This $0.6 million was included in Cash and cash equivalents as of September 30, 2023. However, this amount was not recognized in net income in the Consolidated statements of operations for the fiscal year ended September 30, 2023. The Company may be subject to interest and penalties related to this cash.

If cash generated from operations is insufficient to satisfy working capital requirements, we may need to access funds through bank loans or other means. 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, retain key employees, 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 line of credit will be sufficient to provide for the Company's working capital and capital expenditure requirements for at least 12 months from the date of this filing.

***Critical Accounting Estimates and 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***

See *Note 1 Summary of Significant Accounting Policies*, in the Consolidated Financial Statements for additional information regarding our revenue recognition policies. The following areas involve significant judgment and estimates:

*Allocating transaction price with agreements with multiple components including leasing and/or a financing component*

A financing component exists when at contract inception the period between the transfer of a promised good and/or service to the customer differs from when the customer pays for the good and/or service. As a practical expedient, we have elected not to adjust the amount of consideration for effects of a significant financing component when it is anticipated the promised good or service will be transferred and the subsequent payment will be one year or less.

Certain contracts contain a financing component including managed services contracts with financing of hardware and software. The interest rate used reflects the approximate interest rate consistent with a separate financing transaction with the customer at the inception of the agreement. Revenues from arrangements which include financing are allocated considering relative standalone selling prices of lease and non-lease components within the agreement. The lease component includes hardware, which is subject to ASC 842, *Leases*. The non-lease components are subject to ASC 606, *Revenue from Contracts with Customers*.

When product and non-managed services are sold together, the allocation of the transaction price to each performance obligation is calculated based on the estimated relative selling price or a budgeted cost-plus margin approach, as appropriate. Due to the complex nature of these contracts, there is significant judgment in allocating the transaction price. These estimates are periodically reviewed by project managers, engineers, and other staff involved to ensure estimates remain appropriate. For items sold separately, including hardware, software, professional services, maintenance contracts, other services, and third-party service contracts, there is no allocation as there is one performance obligation.

*Professional Services Sold Without Products*

The input method using labor hours expended relative to the total expected hours is used to recognize revenue for professional services. Only the hours that depict our performance toward satisfying a performance obligation are used to measure progress. An estimate of hours for each professional service agreement is made at the beginning of each contract based on prior experience and monitored throughout the performance of the services. This method is most appropriate as it depicts the measure of progress towards satisfaction of the performance obligation.

*Gross versus Net Revenue*

We recognize revenue from third-party service contracts as either gross sales or net sales depending on whether we are acting as the principal party to the transaction or acting as an agent or broker based on control and timing. We are the principal if we control the good or service before that good or service is transferred to the customer. We record revenue as gross when we are the principal party to the arrangement and net of cost when we are acting as a broker or agent for a third party. 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 sales. 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. Third-party service contracts are sold in different combinations with hardware, software, and services. When we are an agent, revenue is typically recorded at a point in time. When we are the principal, revenue is recognized over the contract term. We have concluded we are the agent in sales of third-party maintenance, software or hardware support, and certain security software that is sold with integral third-party delivered software maintenance that includes critical updates.

***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.

***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 consolidated 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 loss, 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. and in the U.S. In the U.K., 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 the U.K. are closed to newly hired employees and have been for the two years ended September 30, 2023. In the U.S., the Company 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, 2023. 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.

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

The consolidated financial statements are included herein.

**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 its disclosure controls and procedures as of September 30, 2023. 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 Securities and Exchange Commission's ("SEC") 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, 2023, the Company's Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

*Management's Report on Internal Control over Financial Reporting.*

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

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

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

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

Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission ("2013 Framework"). Based on our evaluation under the COSO 2013 Framework, our management concluded that our internal control over financial reporting was effective as of September 30, 2023.

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, 2023 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.*

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with management's evaluation during our fiscal year 2023 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

During the three months ended September 30, 2023, no director or officer of the Company adopted or terminated any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

**Item 9C.** ***Disclosure Regarding Foreign Jurisdiction that Prevent Inspections***

Not applicable

## 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", "Delinquent Section 16(a) reports" and "Corporate Governance" in our Schedule 14A Proxy Statement for our 2024 Annual Meeting of Stockholders, to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2023.

**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 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2023.

**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. 2014 Employee Stock Purchase Plan (the "ESPP") and the 2015 Stock Incentive Plan. In fiscal 2023 and 2022, the Company granted to certain key employees, certain officers including its Chief Executive Officer and non-employee directors' shares of non-vested common stock instead of stock options. The non-vested common stock has a four-year vesting period for key employees, officers including the Chief Executive Officer. There is a one-year vesting period for the non-employee directors. The following table sets forth information as of September 30, 2023 regarding the total number of securities outstanding under these equity compensation plans.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity plans approved by security holders | 295,076 (1) | $ — (2) | 514,939 (3) |

(1) Includes only non-vested restricted stock awards issued under the 2015 Stock Incentive Plan.

(2) There are only non-vested restricted awards outstanding, which do not require the holder to give any consideration for the awards.

(3) Includes 245,404 shares under the 2015 Stock Incentive Plan and 269,535 shares under the 2014 Employee Stock Purchase Plan.

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 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2023.

**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 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2023.

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

We incorporate the information required by this item by reference to the sections captioned "Fees for Professional Services" and "Pre-approval Policies and Procedures" in our Schedule 14A Proxy Statement for our 2024 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of our fiscal year ended September 30, 2023.

**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, 2023 and 2022

Consolidated Statements of Operations for the years ended September 30, 2023 and 2022

Consolidated Statements of Comprehensive Income for the years ended September 30, 2023 and 2022

Consolidated Statements of Shareholders' Equity for the years ended September 30, 2023 and 2022

Consolidated Statements of Cash Flows for the years ended September 30, 2023 and 2022

Notes to Consolidated Financial Statements

*(2) Financial statement schedules*

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

*(3) Exhibits*

| Exhibit No. | Description | Filed with this Form 10-K | Incorporated by Reference: Form | Filing Date | Exhibit No. |
|---|---|---|---|---|---|
| 3.1 | Articles of Organization and amendments thereto | | 10-K | December 26, 2007 | 3.1 |
| 3.2 | By-laws, as amended December 13, 2012 | | 10-K | December 20, 2012 | 3.2 |
| 4.1 | Description of Securities | | 10-K | December 28, 2022 | 4.1 |
| 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 |
| 10.3* | 2014 Variable Compensation (Executive Bonus) and Base Programs dated November 12, 2013 | | 10-K | December 23, 2014 | 10.10 |
| 10.4* | Death Benefit and Retirement Benefit Agreement between the Company and Victor Dellovo dated September 13, 2013 | | 10-K | December 24, 2013 | 10.11 |
| 10.5* | Form of Change of Control Agreement with Gary W. Levine dated January 11, 2008 | | 10-K | December 23, 2010 | 10.11 |
| 10.6* | 2014 Employee Stock Purchase Plan | | DEF 14A | January 6, 2014 | A |
| 10.7* | 2015 Stock Incentive Plan | | DEF 14RA | January 25, 2019 | A |
| 10.8 | 2015 Lowell, MA Lease | | 10-K | December 24, 2015 | 10.21 |
| 10.9 | 2015 Deerfield Beach, FL Lease | | 10-K | December 24, 2015 | 10.20 |
| 10.10* | Executive Retention and Service Agreement with Victor Dellovo, dated September 4, 2012 | | 10-Q | February 14, 2018 | 10.1 |
| 10.11* | Forms of Employee Restricted Stock Award Agreement | | 10-Q | February 14, 2018 | 10.2 |
| 10.12 | Share Purchase and Assignment Agreement | | 8-K | June 27, 2018 | 2.1 |
| 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 | | | |
| 97.1 | Policy relating to recovery of erroneously awarded compensation | 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.

**Item 16.** ***Form 10-K Summary***

None.

## 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 13, 2023

**Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.**

| Name | Title | Date |
|---|---|---|
| /s/ Victor Dellovo<br>**Victor Dellovo** | Chief Executive Officer, President and Director | December 13, 2023 |
| /s/ Gary W. Levine<br>**Gary W. Levine** | Chief Financial Officer<br>(Principal Financial Officer) | December 13, 2023 |
| /s/ Mike Newbanks<br>**Mike Newbanks** | Vice President of Finance<br>(Chief Accounting Officer) | December 13, 2023 |
| /s/ C. Shelton James<br>**C. Shelton James** | Director | December 13, 2023 |
| /s/ Raymond Charles Blackmon<br>**Raymond Charles Blackmon** | Director | December 13, 2023 |
| /s/ Marilyn T. Smith<br>**Marilyn T. Smith** | Director | December 13, 2023 |
| /s/ Izzy Azeri<br>**Izzy Azeri** | Director | December 13, 2023 |

## Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors
CSP Inc. and Subsidiaries

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CSP Inc. and its subsidiaries (the Company) as of September 30, 2023 and 2022, the related consolidated statements of operations, comprehensive income, shareholders’ equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2023 and 2022, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements, and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### Revenue Recognition - Gross Versus Net Presentation

As described in Note 1 to the financial statements, the Company recognizes revenue from third-party service contracts as either gross sales or net sales depending on whether the Company is acting as a principal party to the transaction or simply acting as an agent or broker. The Company records revenue as gross when the

Company is a principal party to the arrangement and net of cost when they are acting as a broker or agent. The Company has concluded that it is the agent in sales of third-party maintenance, software or hardware support, and certain security software that is sold with integral third-party delivered software maintenance that include critical updates.

We identified the Company’s accounting for revenue from third-party service contracts described above to be a critical audit matter due to the significant judgments used by management related to the evaluation of the principal versus agent considerations. Auditing management’s assumptions and conclusions involved a high degree of auditor judgment.

Our audit procedures related to these contracts included the following, among others:

- We evaluated management’s significant accounting policies related to these third-party contracts for consistency with accounting standards.
- For a selection of contracts, we performed the following procedures:
  - Inspected the customer invoice and purchase order to determine whether the sale represented a valid and enforceable transaction with a customer.
  - Compared the cost per the Company’s records to the cost per the vendor invoice.
  - For third-party service contracts, we assessed the terms in the customer purchase order, customer invoice and vendor invoice and evaluated the Company’s determination of principal versus agent presentation. For those contracts where the Company is acting as an agent or broker, we:
    - Compared the description of the transaction per the customer invoice to management’s summary file of gross vs. net transactions.
    - Evaluated the accuracy of the summary file through inspection of customer and vendor invoices, purchase orders and information on vendor websites accessed through third-party search engines and through inquiries with management.

/s/ RSM US LLP

We have served as the Company's auditor since 2007.

Coral Gables, Florida
December 13, 2023

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

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 25,217 | $ 23,982 |
| Accounts receivable, net of allowances of $100 and $88 | 20,126 | 22,993 |
| Investment in lease, net-current portion | 8 | 17 |
| Inventories | 2,542 | 4,372 |
| Refundable income taxes | — | 1,050 |
| Other current assets | 2,471 | 7,043 |
| Total current assets | 50,364 | 59,457 |
| | | |
| Property, equipment and improvements, net | 525 | 647 |
| Operating lease right-of-use assets | 966 | 1,160 |
| Intangibles, net | 46 | 10 |
| Investment in lease, net-less current portion | 7 | 3 |
| Long-term receivable | 4,224 | 7,412 |
| Deferred income taxes, net | 2,346 | — |
| Cash surrender value of life insurance | 5,356 | 5,163 |
| Pension benefits assets | 1,958 | 1,099 |
| Other assets | 112 | 111 |
| Total assets | $ 65,904 | $ 75,062 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 10,785 | $ 22,463 |
| Line of credit | 1,515 | 3,124 |
| Notes payable - current portion | 449 | 427 |
| Deferred revenue | 1,898 | 4,058 |
| Pension and retirement plans | 98 | 110 |
| Income taxes payable | 914 | — |
| Total current liabilities | 15,659 | 30,182 |
| Pension and retirement plans | 1,251 | 1,337 |
| Notes payable - noncurrent portion | — | 449 |
| Operating lease liabilities - noncurrent portion | 482 | 623 |
| Income taxes payable | 513 | 462 |
| Other noncurrent liabilities | 1,851 | 3,046 |
| Total liabilities | 19,756 | 36,099 |
| | | |
| Shareholders' equity: | | |
| Common stock, $.01 par value per share; authorized, 7,500 shares; issued and outstanding 4,728 and 4,554 shares, respectively | 48 | 46 |
| Additional paid-in capital | 20,883 | 19,476 |
| Retained earnings | 31,311 | 26,769 |
| Accumulated other comprehensive loss | (6,094) | (7,328) |
| Total shareholders' equity | 46,148 | 38,963 |
| Total liabilities and shareholders' equity | $ 65,904 | $ 75,062 |

**See accompanying notes to consolidated financial statements.**

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

| | Year Ended | |
|---|---|---|
| | September 30, 2023 | September 30, 2022 |
| **Sales:** | | |
| Product | $ 47,149 | $ 36,688 |
| Services | 17,498 | 17,673 |
| Total sales | 64,647 | 54,361 |
| | | |
| **Cost of sales:** | | |
| Product | 35,524 | 28,977 |
| Services | 7,203 | 6,557 |
| Total cost of sales | 42,727 | 35,534 |
| | | |
| Gross profit | 21,920 | 18,827 |
| | | |
| **Operating expenses:** | | |
| Engineering and development | 3,140 | 3,084 |
| Selling, general and administrative | 16,910 | 15,783 |
| Total operating expenses | 20,050 | 18,867 |
| | | |
| **Operating income (loss)** | 1,870 | (40) |
| | | |
| **Other income (expense):** | | |
| Foreign exchange (loss) gain | (581) | 1,692 |
| Interest expense | (262) | (360) |
| Interest income | 1,460 | 650 |
| Employee Retention Tax Credit, net of costs to collect | 2,136 | — |
| Other income (expense), net | 112 | (3) |
| Total other income, net | 2,865 | 1,979 |
| Income before income taxes | 4,735 | 1,939 |
| Income tax (benefit) expense | (469) | 50 |
| Net income | $ 5,204 | $ 1,889 |
| Net income attributable to common shareholders | $ 4,884 | $ 1,789 |
| | | |
| Net income per common share - basic | $ 1.11 | $ 0.42 |
| Weighted average common shares outstanding – basic | 4,381 | 4,261 |
| | | |
| Net income per common share - diluted | $ 1.09 | $ 0.42 |
| Weighted average common shares outstanding – diluted | 4,471 | 4,278 |

**See accompanying notes to consolidated financial statements.**

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

| | Year Ended | |
|---|---|---|
| | September 30, 2023 | September 30, 2022 |
| Net income | $ 5,204 | $ 1,889 |
| Other comprehensive income (loss): | | |
| Unrealized actuarial gain on minimum pension liability, net of tax effect | 272 | 3,861 |
| Foreign currency translation gain (loss) adjustments, net | 962 | (1,741) |
| Other comprehensive income | 1,234 | 2,120 |
| Total comprehensive income | $ 6,438 | $ 4,009 |

**See accompanying notes to consolidated financial statements.**

# CSP INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
### For the Years Ended September 30, 2023 and 2022:
### (Amounts in thousands)

| Year ended September 30, 2023: | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Accumulated other comprehensive loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance as of September 30, 2022 | 4,554 | $ 46 | $ 19,476 | $ 26,769 | $ (7,328) | $ 38,963 |
| Net income | — | — | — | 5,204 | — | 5,204 |
| Other comprehensive income | — | — | — | — | 1,234 | 1,234 |
| Stock-based compensation | — | — | 1,127 | — | — | 1,127 |
| Restricted stock issuance | 143 | 2 | — | — | — | 2 |
| Issuance of shares under employee stock purchase plan | 32 | — | 280 | — | — | 280 |
| Purchase of common stock | (1) | — | — | (6) | — | (6) |
| Cash dividends paid on common stock ($0.14 per share) | — | — | — | (656) | — | (656) |
| Balance as of September 30, 2023 | 4,728 | $ 48 | $ 20,883 | $ 31,311 | $ (6,094) | $ 46,148 |

| Year ended September 30, 2022: | Shares | Amount | Additional Paid-in Capital | Retained Earnings | Accumulated other comprehensive loss | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| Balance as of September 30, 2021 | 4,394 | $ 45 | $ 18,258 | $ 25,191 | $ (9,448) | $ 34,046 |
| Net income | — | — | — | 1,889 | — | 1,889 |
| Other comprehensive income | — | — | — | — | 2,120 | 2,120 |
| Stock-based compensation | — | — | 979 | — | — | 979 |
| Restricted stock cancellation | — | (1) | — | — | — | (1) |
| Restricted stock issuance | 151 | 2 | — | — | — | 2 |
| Issuance of shares under employee stock purchase plan | 31 | — | 239 | — | — | 239 |
| Purchase of common stock | (22) | — | — | (174) | — | (174) |
| Cash dividends paid on common stock ($0.03 per share) | — | — | — | (137) | — | (137) |
| Balance as of September 30, 2022 | 4,554 | $ 46 | $ 19,476 | $ 26,769 | $ (7,328) | $ 38,963 |

**See accompanying notes to consolidated financial statements.**

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

| | Year Ended | |
|---|---|---|
| | **September 30, 2023** | **September 30, 2022** |
| **Operating activities** | | |
| Net income | $ 5,204 | $ 1,889 |
| | | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 343 | 350 |
| Amortization of intangibles | 15 | 9 |
| Loss on disposal of fixed assets, net | 4 | — |
| Foreign exchange loss (gain) | 581 | (1,692) |
| Provision for losses (recoveries) on accounts receivable | 26 | (50) |
| Provision for obsolete inventory | 274 | 130 |
| Amortization of lease right-of-use assets | 573 | 576 |
| Stock-based compensation expense on stock options and restricted stock awards | 1,127 | 979 |
| Deferred income taxes | (2,346) | — |
| Decrease in cash surrender value of life insurance | (130) | (1,221) |
| | | |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 2,852 | (4,264) |
| Decrease (increase) in inventories | 1,557 | (517) |
| Decrease in refundable income taxes | 1,050 | 605 |
| Increase in operating lease right-of-use assets | (379) | (377) |
| Decrease (increase) in other assets | 4,581 | (2,491) |
| Decrease in investment in lease | 5 | 63 |
| Decrease in long-term receivable | 3,188 | 111 |
| (Decrease) increase in accounts payable and accrued expenses | (11,596) | 8,714 |
| Decrease in interest payable | (50) | (8) |
| Decrease in operating lease liabilities | (190) | (330) |
| (Decrease) increase in deferred revenue | (2,161) | 2,165 |
| Decrease in pension and retirement plans liabilities | (391) | (167) |
| Increase (decrease) in income taxes payable | 965 | (62) |
| Decrease in other long-term liabilities | (1,195) | (1,737) |
| Net cash provided by operating activities | 3,907 | 2,675 |
| | | |
| **Investing activities** | | |
| Life insurance premiums paid | (64) | (70) |
| Purchase of held-to-maturity investments | (3,533) | — |
| Proceeds from maturities of held-to-maturity investments | 3,533 | — |
| Proceeds from corporate life insurance owned policy | — | 322 |
| Proceeds from sales of property, equipment, and improvements | — | 2 |
| Additions of intangible assets | (51) | — |
| Purchases of property, equipment and improvements | (226) | (234) |
| Net cash (used in) provided by investing activities | (341) | 20 |
| | | |
| **Financing activities** | | |
| Dividends paid | (656) | (137) |
| Net borrowing under line-of-credit agreement | (1,609) | 2,183 |
| Repayments on notes payable | (406) | (736) |
| Principal payments on finance leases | (4) | (47) |
| Purchase of common stock | (6) | (174) |

| | | |
|---|---|---|
| Proceeds from issuance of shares under equity compensation plans | 280 | 239 |
| Net cash (used in) provided by financing activities | (2,401) | 1,328 |
| Effects of exchange rate on cash, net | 70 | (48) |
| Net increase in cash and cash equivalents | 1,235 | 3,975 |
| Cash and cash equivalents beginning of year | 23,982 | 20,007 |
| **Cash and cash equivalents end of year** | $ 25,217 | $ 23,982 |
| | | |
| **Supplementary cash flow information:** | | |
| Cash paid (received) for income taxes | $ 246 | $ (233) |
| Cash paid for interest | $ 313 | $ 184 |
| | | |
| **Supplementary non-cash financing activities:** | | |
| Obtaining a right-of-use asset in exchange for a lease liability | $ 392 | $ 352 |
| Customer financing for inventory sold (see *Note 2 Accounts and Long-Term Receivable* for details) | $ 6,032 | $ 1,232 |
| Vendor financing for inventory purchased (see *Note 8 Accounts payable and accrued expenses, and Other noncurrent liabilities* for details) | $ 2,321 | $ — |

**See accompanying notes to consolidated financial statements.**

**CSP INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED SEPTEMBER 30, 2023 AND 2022**

**Organization and Business**

CSP Inc. ("CSPi" or "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, advanced security products, managed IT services, purpose built network adapters, and high-performance cluster computer systems. The Company operates in two segments, its Technology Solutions ("TS") segment and its High Performance Products ("HPP") segment.

**1. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying audited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America and the rules and regulations of the Securities and Exchange Commission.

*Principles of Consolidation*

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

*Foreign Currency Translation*

The U.S. Dollar is the reporting currency for all periods presented. The financial information for entities outside the United States is measured using the local currency as the functional currency. In consolidation, foreign transactions are remeasured into the functional currency, British Pounds, of our U.K. subsidiary. This non-cash remeasurement is included in foreign exchange gain or loss on the income statement. After this remeasurement, 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 loss, a separate component of shareholders' equity on the consolidated balance sheets. Currency transaction gains and losses are recorded as other income (expense) in the consolidated 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.

*Employee Retention Tax Credit*

The Coronavirus Aid, Relief, and Economic Security Act provided an employee retention credit ("ERC") which is a refundable tax credit against certain employment taxes. The Consolidated Appropriations Act, 2021 extended and expanded the availability of the employee retention credit through December 31, 2021 including amending the employee retention credit to be equal to 70% of qualified wages paid to employees during the 2021 calendar year.

The TS-US division and HPP segment qualified for the ERC beginning in March 2021 for qualified wages through September 2021 and filed a cash refund claim during the fiscal year ended September 30, 2023. An amount of $2.8 million, net of costs, was received in the fourth quarter of fiscal year 2023.

On the Company's Consolidated Statements of Operations in Total other income, net the financial statement line item Employee retention tax credit, net of costs to collect for fiscal year ended September 30, 2023 of $2.1 million represents the amount we were qualified to receive. There are no other amounts that will be received related to this credit. There is $0.6 million on the Consolidated Balance Sheets in the financial statement line item Accounts payable and accrued expenses, which will be paid back to the IRS in fiscal year 2024.

We accounted for the ERC as a gain contingency in accordance with ASC 450-30 Gain Contingencies. Under this standard, the ERC was recognized only after the contingency was resolved and deemed realizable.

*Research and Development Expense*

For the years ended September 30, 2023 and 2022, our expenses for research and development were approximately $3.1 million and $3.1 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 and intangibles) 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 or goodwill at any time during the two years ended September 30, 2023.

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 net book value. 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. There was no impairment for the years ended September 30, 2023 and 2022.

*Leases as Lessee*

At the inception of an arrangement, the Company determines whether the arrangement contains a lease. This includes arrangements with goods and services to determine if there is an embedded lease. An arrangement containing a lease would allow the Company the right to control an implicitly or explicitly identified asset. If there is a lease in an arrangement, the classification is determined at inception of the arrangement. Certain leases may contain transfer of ownership or an option to purchase the underlying asset. The most relevant criterion for our lease classification is transfer of ownership, which if included in the arrangement makes the lease a finance lease rather than an operating lease.

The discount rate used to assess classification is the incremental borrowing rate at the commencement date due to the implicit rate not being readily determinable. The incremental borrowing rate is the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term and amount equal to the lease payments in a similar economic environment. The lease term includes periods where we are reasonably certain we will exercise the renewal option. The Company has elected not to apply Subtopic *ASC 842-25* to short-term leases, which are defined as a lease that has a lease term of 12 months or less and does not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. Therefore, there are no right-of-use assets or lease liabilities related to short-term leases in the Consolidated Balance Sheets and the lease payments are expensed on a straight-line basis over the lease term. Leases are typically not able to be terminated without penalty. None of our lease arrangements contain residual value guarantees, restrictions, or covenants. None of the Company's current leases are with related parties. There are no lease arrangements that we have entered into as of September 30, 2023 that have not yet commenced. See *Note 9 Leases* for additional information.

*Operating leases*

The Company has operating leases for office space, data centers, and other information technology equipment under various leases. Operating lease right-of-use assets and liabilities are recognized at the commencement date using the present value of the fixed lease payments over the lease term. We do not have leases with variable consideration. The incremental borrowing rate is used in determining present value. Certain operating leases, primarily office space and IT equipment, have an option to extend the lease. Renewal periods related to certain lease agreements related to office buildings are included in the lease term for lease accounting.

The Company has operating lease agreements with lease components (e.g. fixed payments including rent, real estate taxes, and insurance costs) as well as nonlease components (e.g. common-area maintenance, colocation services). The Company has elected to account for lease and nonlease components as one single lease component for all classes of assets. Lease expense is recognized on a straight-line basis over the lease term.

*Finance leases*

The Company has finance leases for information technology equipment and subleases all this equipment (see Lessor section below for details). All finance leases transfer ownership to the Company, which meets the criterion to be a finance lease. Due to our finance leases being subleases, there are no finance right-of-use assets because instead there is a net investment in lease in the Consolidated Balance Sheets.

*Leases as Lessor*

The Company is a lessor, but only as a sublessor. The process for identifying and classifying a lease is similar to the process described above in the lessee section. Additionally, the most relevant criteria to classification is transfer of ownership and present value of the total lease payments in relation to fair value of the underlying asset. The Company as a lessor has both sales-type and direct financing leases. The Company as a lessor does not have operating leases. All the Company's sublease agreements are bundled agreements containing managed services, software, and other services. The fixed payments under bundled agreements are allocated based on the relative standalone selling prices of the lease and non-lease deliverables are consistent with ASC 606. The allocation of the fixed payments may be calculated using a budgeted cost-plus margin approach if there are other services in addition to managed services. Due to the complex nature of these contracts, there is significant judgment in allocating the fixed payments. There is no variable consideration in these agreements. The discount rate used as a lessor pertaining to the lease component is the implicit rate. As sublessor, lease agreements contain an option to purchase the underlying asset or transfers ownership at the end of the lease. The leases typically do not have any residual value to the Company. In the Company's sublessor agreements, the payments allocated to the lease component cannot be terminated. See *Note 9 Leases* for additional information.

*Inventories*

Inventories are stated at the lower of cost or net realizable value, 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. As of September 30, 2023, and September 30, 2022, the Company maintained inventory reserves of $1.0 million and $0.8 million, respectively.

*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.

*Trade Accounts Receivable, Long Term 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. Within trade accounts receivable and long-term receivable are financing agreements with an original payment term of greater than one year. Interest income earned on these receivables is recognized using the effective interest method. See *Note 2 Accounts and Long-Term Receivables* for further details on financing arrangements.

*Pension and Retirement Plans*

The funded status of pension and other postretirement benefit plans is recognized on the consolidated balance sheets. 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 loss, 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.”) and in the U.S. In the U.K. 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 plan in the U.K. is closed to newly hired employees and has been for the two years ended September 30, 2023. 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, 2023. 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.

*Segment Information*

We have two operating segments: (i) Technology Solutions ("TS") and (ii) High Performance Products ("HPP"). In the TS segment, we focus on value added reseller ("VAR") integrated solutions including third party hardware, software and technical computer-related consulting and managed services. In the HPP segment, we design, manufacture and deliver products and services to customers that require specialized cyber security services, networking and signal processing products. The operations and assets of our TS segment are located in the United States and the United Kingdom, which are the two divisions that make up the TS segment. The operations and assets of our HPP segment are located in the United States.

*Revenue Recognition*

We derive revenue from the sale of integrated hardware and software, third-party service contracts, professional services, managed services, financing of hardware and software, and other services.

We recognize revenue from hardware upon transfer of control, which is at a point in time typically upon shipment when title transfers. Revenue from software is recognized at a point in time when the license is granted.

We recognize revenue from third-party service contracts as either gross sales or net sales depending on whether we are acting as the principal party to the transaction or acting as an agent or broker based on control and timing. We are the principal if we control the good or service before that good or service is transferred to the customer. We record revenue as gross when we are the principal party to the arrangement and net of cost when we are acting as a broker or agent for a third party. 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 sales. 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. Third-party service contracts are sold in different combinations with hardware, software, and services. When we are an agent, revenue is typically recorded at a point in time. When we are the principal, revenue is recognized over the contract term. We have concluded we are the agent in sales of third-party maintenance, software or hardware support, and certain security software that is sold with integral third-party delivered software maintenance that includes critical updates.

Professional services generally include implementation, installation, and training services. Professional services are considered a series of distinct services that form one performance obligation and revenue is recognized over time as services are performed.

Revenue generated from managed services is recognized over the term of the contract. Certain managed services contracts include financing of hardware and software. Revenues from arrangements which include financing are allocated considering relative standalone selling prices of lease and non-lease components within the agreement. The lease component includes hardware, which is subject to ASC 842, *Leases*. The non-lease components are subject to ASC 606, *Revenue from Contracts with Customers*.

Other services generally include revenue generated through our royalty, extended warranty, multicomputer repair, and maintenance contracts. Royalty revenue is sales-based and recognized on date of subsequent sale of the product, which occurs on the date of customer shipment. Revenue from extended warranty contracts is recognized ratably over the warranty period. Multicomputer repair services revenue is recognized upon control transfer when the customer takes possession of the computer at time of shipping. Revenue generated from maintenance services is recognized evenly over the term of the contract.

The right of return risk lies with the original manufacturer of the product. Managed service contracts contain the right to refund if canceled within 30 days of inception. Any products with a standard warranty are treated as a warranty obligation under ASC 460, *Guarantees.*

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

*TS Segment Revenue*

TS Segment revenue is derived from the sale of hardware, software, professional services, third-party service contracts, maintenance contracts, managed services, and financing of hardware and software. Financing revenue pertaining to the portion of an arrangement containing a lease is recognized in accordance with ASC 842. Financing revenue related to the lease is recorded in revenue as equipment leasing is part of our operations.

Third-party service contracts are evaluated to determine whether such service revenue should be recorded as gross or net sales and whether over time or at point in time.

*HPP Segment Revenue*

HPP segment revenue is derived from the sale of integrated hardware and software, maintenance, and other services through the Multicomputer, Myricom, and ARIA product lines.

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. Post contract maintenance and support is considered immaterial in the context of the contract and therefore is not a separate performance obligation. Multicomputer revenue is derived from the sale of hardware, software, extended warranties, royalties, and repair services. ARIA revenue is derived from sale of hardware, software, and managed services.

See disaggregated revenues below by products/services and geography.

| Year ended September 30, 2023 | High Performance Products Segment | Technology Solutions Segment: United Kingdom | Technology Solutions Segment: U.S. | Technology Solutions Segment: Total | Consolidated Total |
|---|---|---|---|---|---|
| | (Amounts in thousands) | | | | |
| **2023** | | | | | |
| Sales: | | | | | |
| Product | $ 5,475 | $ 734 | $ 40,938 | $ 41,672 | $ 47,147 |
| Service | 1,398 | 288 | 15,812 | 16,100 | 17,498 |
| Finance * | — | — | 2 | 2 | 2 |
| Total sales | $ 6,873 | $ 1,022 | $ 56,752 | $ 57,774 | $ 64,647 |

| Year ended September 30, 2022 | High Performance Products Segment | Technology Solutions Segment: United Kingdom | Technology Solutions Segment: U.S. | Technology Solutions Segment: Total | Consolidated Total |
|---|---|---|---|---|---|
| | (Amounts in thousands) | | | | |
| **2022** | | | | | |
| Sales: | | | | | |
| Product | $ 2,516 | $ 518 | $ 33,653 | $ 34,171 | $ 36,687 |
| Service | 1,327 | 325 | 16,021 | 16,346 | 17,673 |
| Finance * | — | — | 1 | 1 | 1 |
| Total sales | $ 3,843 | $ 843 | $ 49,675 | $ 50,518 | $ 54,361 |

* Finance revenue is related to equipment leasing and is not subject to the guidance on revenue from contracts with customers (*ASC 606*).

*Contract Assets and Liabilities*

When we have performed work but do not have an unconditional right to payment, a contract asset is recorded. When we have the right to bill a customer, accounts receivable is recorded as an unconditional right exists. Current contract assets were $0.9 million and $4.4 million as of September 30, 2023 and September 30, 2022, respectively. The current portion is recorded in other current assets on the consolidated balance sheets. There were no noncurrent contract assets as of September 30, 2023 and September 30, 2022. The difference in the balances is due to regular timing differences between when work is performed and having an unconditional right to payment.

Contract liabilities arise when payment is received before we transfer a good or service to the customer. Current contract liabilities were $1.9 million and $4.1 million as of September 30, 2023 and September 30, 2022, respectively. The current portion of contract liabilities is recorded in deferred revenue on the consolidated balance sheets. There were no long-term contract liabilities as of September 30, 2023 and 2022, respectively. Revenue recognized for the year ended September 30, 2023 that was included in contract liabilities as of September 30, 2022 was $3.2 million.

*Contract Costs*

Incremental costs of obtaining a contract involving customer transactions where the revenue and the related transfer of goods and services are equal to or less than a one year period, are expensed as incurred, utilizing the practical expedient in *ASC 340-40-25-4*. For a period greater than one year, incremental contract costs are capitalized if we expect to recover these costs. The costs are amortized over the contract term and expected renewal periods. The period of amortization is generally three to six years. Incremental costs are related to commissions in the TS portion of the business. Current capitalized contract costs are within the other current assets on the consolidated balance sheets as of September 30, 2023 and 2022. The portion of current capitalized costs were $172 thousand and $128 thousand as of September 30, 2023 and 2022, respectively. There were no noncurrent capitalized costs on the consolidated balance sheets as these commissions are paid annually even when the contract extends beyond a one year period. The amount of incremental costs amortized for the year ended September 30, 2023 and 2022 were $436 thousand and $366 thousand, respectively. This is recorded in selling, general, and administrative expenses. There was no impairment related to incremental costs capitalized for the years ended September 30, 2023 and 2022, respectively.

Costs to fulfill a contract are capitalized when the costs are related to a contract or anticipated contract, generate or enhance resources that will be used in satisfying performance obligations in the future, and costs are recoverable. Costs to fulfill a contract are related to the TS portion of the business and involve activities performed before managed services can be completed. Current capitalized fulfillment costs are in the other current assets and noncurrent costs are in other assets on the consolidated balance sheets. There were no current capitalized costs as of September 30, 2023 and $9 thousand as of September 30, 2022, respectively. There were no noncurrent capitalized costs as of September 30, 2023 and 2022, respectively. The amount of fulfillment costs amortized year ended September 30, 2023 and 2022 were $9 thousand and $13 thousand, respectively. These costs amortized were recorded in cost of sales. There was no impairment related to fulfillment costs capitalized for the years ended September 30, 2023 and 2022, respectively.

*Other*

Projects are typically billed upon completion or at certain milestones. Product and services are typically billed when shipped or as services are being performed. Payment terms are typically 30 days to pay in full except in Europe where it could be up to 90 days. Most of our contracts are less than one year. There are certain contracts that contain a financing component. See *Note 1 Summary of Significant Accounting Policies* to the consolidated financial statements for additional information. We elected to use the optional exemption to not disclose the aggregate amount of the transaction price allocated to performance obligations that have an original expected duration of one year or less. This is due to a low amount of performance obligations, which are less than one year from being unsatisfied at each period end. Most of these contracts are related to product sales.

We have certain contracts that have an original term of more than one year. The royalty agreement is longer than one year, but not included in the table below as the royalties are sales-based. Managed service contracts are generally longer than one year. For these contracts the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially unsatisfied as of September 30, 2023 is set forth in the table below:

| | (Amounts in thousands) |
|---|---|
| Fiscal 2024 | 248 |
| Fiscal 2025 | 123 |
| Fiscal 2026 | 53 |
| | $ 424 |

*Product Warranty Accrual*

Our product sales generally include a hardware warranty which ranges from 90-days to three-years. 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 net 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 available to common shareholders by the assumed weighted average number of common shares outstanding.

We are required to present earnings per share ("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:

| | Year Ended |
|---|---|

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| Net income | $ 5,204 | $ 1,889 |
| Less: net income attributable to nonvested common stock | (320) | (100) |
| Net income attributable to common shareholders | $ 4,884 | $ 1,789 |
| | | |
| Weighted average total shares outstanding – basic | 4,668 | 4,498 |
| Less: weighted average non–vested shares outstanding | (287) | (237) |
| Weighted average number of common shares outstanding – basic | 4,381 | 4,261 |
| Add: potential common shares from non–vested stock awards | 90 | 17 |
| Weighted average common shares outstanding – diluted | $ 4,471 | 4,278 |
| | | |
| Net income per common share - basic | $ 1.11 | $ 0.42 |
| Net income per common share - diluted | $ 1.09 | $ 0.42 |

All anti-dilutive securities, including stock options, are excluded from the diluted income per share computation. Non-vested restricted stock awards of 54 thousand shares were excluded from net income per share for the year ended September 30, 2023 because their inclusion would have been anti-dilutive. Non-vested restricted stock awards of 171 thousand shares were excluded from net income per share for the year ended September 30, 2022 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 periods. 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 for nonvested shares of restricted common stock based on estimated fair values of stock-based payment awards on the date of grant. The Company has no outstanding stock options issued as of September 30, 2023 and did not issue any for the years ended September 30, 2023 and 2022, respectively. 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 fair 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.

Stock-based compensation expense recognized in the consolidated statements of operations for the fiscal years ended September 30, 2023 and 2022 is based on awards ultimately expected to vest and 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, 2023 and 2022 consisted of restricted stock granted pursuant to the Company's stock incentive and employee stock purchase plans of approximately $1.1 million and $1.0 million, respectively.

*Concentrations of Credit Risk*

Cash and cash equivalents are maintained with several financial institutions in the U.S. and the U.K. 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 in cash and cash equivalents.

We had one customer who totaled approximately $7.4 million, or 30%, and approximately $15.8 million, or 52%, of total consolidated accounts receivable as of September 30, 2023 and September 30, 2022, respectively. We believe that the Company is not exposed to any significant credit risk with respect to the accounts receivable with this customer as of September 30, 2023. No other customers accounted for 10% or more of total consolidated accounts receivable as of September 30, 2023.

*Subsequent Events*

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

*New accounting standards not adopted as of September 30, 2023*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, an amendment of the FASB Accounting Standards Codification. This ASU will change how entities account for credit losses for most financial assets and certain other instruments. For trade receivables, loans and held-to-maturity debt securities entities will be required to estimate lifetime expected credit losses. For available-for-sale debt securities entities will be required to recognize an allowance for credit losses rather than a reduction to the carrying value of the asset. Additionally, there will be a significant increase in the amount of disclosures by year of origination for certain financing receivables. For public entities classified as a smaller reporting company, the new standard is effective for annual periods beginning after December 15, 2022 (ASU 2019-10 *Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*), including interim periods within that annual period. The Company is evaluating the effect that ASU 2016-13 will have on its consolidated financial statements and related disclosures.

**2. Accounts and Long-Term Receivable**

Within accounts receivable and long-term receivable there are amounts due reflecting sales whose payment terms exceed one year. This financing is separate from agreements with a leasing component, see *Note 9 Leases* for financing through leases. These receivables are included in Accounts Receivable and Long-Term Receivable in the amount of $7.2 million and $4.2 million as of September 30, 2023, respectively. These receivables are included in Accounts Receivable and Long-Term Receivable in the amount of $8.9 million and $7.4 million as of September 30, 2022, respectively.

The receivables with a payment term exceeding one year carry an average weighted interest rate of 6.2% as of September 30, 2023, which reflects the approximate interest rate consistent with a separate financing transaction with the customer at the inception of the agreement.

There is not an allowance for credit losses nor impairments for accounts and long-term receivables with a contractual maturity of over one year. All accounts had no past amounts due as of September 30, 2023 or 2022, respectively. There was no activity in the allowance for credit losses of these receivables for the years ended September 30, 2023 and 2022, respectively. All these agreements are looked at as one portfolio in determining credit losses. There are various factors that are considered in extending a customer payment terms longer than one year including payment history, economic conditions, and capacity to pay. The credit quality of customers is monitored by payment activity. The unearned income represents a rate similar to market at the inception of the agreement.

The amount of interest income earned from sales whose payment terms exceed one year for the year ended September 30, 2023 and 2022 was $810 thousand and $548 thousand, respectively. Interest income from these agreements is recorded in Other income, net on the Consolidated Statements of Operations.

There was one new agreement effective in the first quarter of fiscal year 2023 causing an increase in Accounts and Long-term receivable. This agreement included approximately $3.0 million in payments to be received over the next 2 years from the effective date of the agreement. The revenue for this transaction was recorded as net revenue.

There were two new agreements effective in the third quarter of fiscal year 2023. One agreement included approximately $3.1 million in payments to be received over the next 4 years from the effective date of the agreement. The second agreement included approximately $0.7 million in payments to be received over the next four years from the effective date of the agreement. The revenue for these transactions was recorded as net revenue.

Receivables whose payment terms exceed one year are placed on nonaccrual status, meaning interest income stops being recorded, when the customer has a past due amount in excess of 30 days or reasonable doubt exists in collecting all interest and principal. A payment due in excess of 30 days is considered delinquent. If a payment is received for a receivable on nonaccrual status the payment is first applied to interest and then principal. Recording interest income resumes once no reasonable doubt exists regarding collecting all interest and principal.

Contractual maturities of outstanding financing receivables with an original contractual maturity over one year are as follows:

| Fiscal year ending September 30: | (Amounts in thousands) |
|---|---|
| 2024 | $ 7,714 |
| 2025 | 3,170 |
| 2026 | 742 |
| 2027 | 628 |
| Total payments | $ 12,254 |
| Less: unearned interest income | (859) |
| Total, net of unearned interest income | $ 11,395 |

## 3. Inventories

Inventories consist of the following:

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| | (Amounts in thousands) | |
| Raw materials | $ 247 | $ 421 |
| Work-in-process | 36 | 23 |
| Finished goods | 2,259 | 3,928 |
| Total | $ 2,542 | $ 4,372 |

We evaluate inventory for obsolescence on at least a quarterly basis or more frequently if needed. Our HPP segment has a multi-faceted approach in determining obsolescence including reviewing inventory by product line, program, and individual part. In the TS segment, we seek to minimize obsolete inventory by having nearly all of our inventory purchased in conjunction with a sales agreement. From time to time, we do purchase certain inventory in bulk to receive discounts, but only when we anticipate selling this inventory in the near-term. The inventory we purchase at the TS segment is in high demand, especially in the current environment, and has a limited risk of obsolescence.

Several components used in our HPP segment products are obtained from sole-source suppliers. We are dependent on key vendors such as ADP, NXP, and BCRM for a variety of processors for certain products. We are dependent on NVIDIA for our high-speed interconnect components. Despite our dependence on these sole-source suppliers, based on our current forecast and our projected sales obligations, we believe we have adequate inventory on hand and our current near-term requirements can be met in the existing supply chain.

The TS segment has many vendors it transacts with. Several components used in our HPP segment products are obtained from sole-source suppliers. We are dependent on key vendors such as ADP, NXP, and BCRM for a variety of processors for certain products. We are dependent on NVIDIA for our high-speed interconnect components. Despite our dependence on these sole-source suppliers, based on our current forecast and our projected sales obligations, we believe we have adequate inventory on hand and our current near-term requirements can be met in the existing supply chain.

## 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, 2021 | $ (4,050) | $ (5,398) | $ (9,448) |
| Change in period | (1,741) | 4,096 | 2,355 |
| Tax effect of change in period | — | (235) | (235) |
| Balance as of September 30, 2022 | $ (5,791) | $ (1,537) | $ (7,328) |
| Change in period | 962 | 244 | 1,206 |
| Tax effect of change in period | — | 28 | 28 |
| Balance as of September 30, 2023 | $ (4,829) | $ (1,265) | $ (6,094) |

The changes in the minimum pension liability are net of an amortization gain of $200 thousand in 2023 and a loss of $91 thousand in 2022 included in net periodic pension cost.

### 5. Income Taxes

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

| | For the Years Ended September 30, 2023 | 2022 |
|---|---|---|
| | (Amounts in thousands) | |
| Income (loss) before income tax expense | | |
| U.S. | $ 5,202 | $ 417 |
| Foreign | (467) | 1,522 |
| | $ 4,735 | $ 1,939 |
| Income tax expense: | | |
| Current: | | |
| Federal | $ 1,551 | $ — |
| State | 326 | 50 |
| | $ 1,877 | $ 50 |
| Deferred: | | |
| Federal | $ (1,971) | $ — |
| State | (375) | — |
| | (2,346) | — |
| Total income tax (benefit) expense | $ (469) | $ 50 |

The effective income tax rate differed from the statutory federal income tax rate due to the following:

| | For the Years Ended September 30, 2023 | | 2022 | |
|---|---|---|---|---|
| | (Dollar amounts in thousands) | | | |
| Computed “expected” tax expense | $ 994 | 21.0 % | $ 407 | 21.0 % |
| Increases (reductions) in taxes resulting from: | | | | |
| State income taxes, net of federal tax benefit | 106 | 2.2 % | 27 | 1.5 % |
| Foreign rate differential | 9 | 0.2 % | (30) | (1.5)% |
| Employee Retention Credit | (134) | (2.8)% | — | — % |
| Permanent differences | (7) | (0.2)% | (19) | (1.0)% |
| Change in valuation allowance | (1,746) | (36.8)% | (226) | (11.5)% |
| Research and development credit | (112) | (2.4)% | (131) | (6.8)% |
| Deferred Tax True Ups | 322 | 6.8 % | — | — % |
| FIN 48 Reserves | 166 | 3.5 % | — | — % |
| Return to Provision Adjustments | (64) | (1.3)% | 14 | 0.7 % |
| Other items | (3) | (0.1)% | 8 | 0.2 % |
| Income tax (benefit) expense | $ (469) | (9.9)% | $ 50 | 2.6 % |

Significant components of the Company's net deferred tax assets and liabilities as of September 30, 2023 and 2022 are as follows:

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| | (Amounts in thousands) | |
| Deferred tax assets: | | |
| Pension | $ 321 | $ 373 |
| Intangibles | — | 29 |
| Capitalized research and development expenses | 651 | — |
| Other reserves and accruals | 1,118 | 596 |
| Inventory reserves and other | 278 | 244 |
| Federal and state tax credits | 771 | 1,273 |
| Federal and state net operating loss carryforwards | — | 151 |
| Foreign net operating loss carryforwards | 2,945 | 2,693 |
| Lease Liability | 239 | — |
| Gross deferred tax assets | 6,323 | 5,359 |
| Less: valuation allowance | (3,283) | (5,029) |
| Realizable deferred tax asset | 3,040 | 330 |
| | | |
| Deferred tax liabilities: | | |
| Depreciation and amortization | (84) | (121) |
| ROU Asset | (235) | — |
| Pension | (372) | (209) |
| Intangibles | (3) | — |
| Realizable deferred tax liabilities | (694) | (330) |
| | | |
| Net deferred tax assets | $ 2,346 | $ — |

The Company undertakes a review of its valuation allowance at each financial statement period, reviewing the positive and negative evidence to help determine whether it is more likely than not that the Company will realize the future tax benefits from its deferred tax balances. In the fiscal year ended September 30, 2020, the Company established a partial valuation allowance against its deferred tax assets in light of results at the time, the COVID-19 pandemic, and the resulting economic fallout, and established a full valuation during the fiscal year ended September 30, 2021. Since that time, the COVID-19 pandemic has ended, and the Company's Technology Solutions business has grown its revenue and operating income in fiscal years 2023 and 2022.

As a result, the Company has determined that it is more likely than not that substantially all of its net deferred tax assets in the U.S. jurisdiction will be utilized and associated valuation allowances should be reversed during the fiscal year ended September 30, 2023. The valuation reversed during the period and resulted in a $1.8 million benefit. The Company separately analyzed the realizability of its federal and state credits and determined $710 thousand (net of federal benefit) of state credits are expected to expire unutilized and kept a valuation allowance against these credits. The Company will continue to maintain a valuation allowance against certain state tax credits in the U.S. and a full valuation allowance against the net deferred tax assets in the U.K. jurisdiction.

As of September 30, 2023, the Company did not have U.S. net operating loss carryforwards for federal purposes or U.S. tax credit carryforwards for federal purposes. As of September 30, 2022, the Company had $162 thousand of U.S. net operating loss carryforwards for federal purposes and $884 thousand of U.S. tax credit carryforwards for federal purposes.

As of September 30, 2023, and 2022, the Company had U.S. net operating loss carryforwards for state purposes of approximately $12 thousand and $3.7 million, respectively, which are available to offset future taxable income through 2034. As of September 30, 2023, the Company had state tax credit carryforwards of $1.1 million available to reduce future state tax expense, of which $55 thousand has unlimited carryover status and the remainder of the credits are available through FY 2038.

As of September 30, 2023, the Company had U.K. net operating loss carryforwards of approximately $15.5 million that have an indefinite life with no expiration.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately $4.8 million and $6.1 million as of September 30, 2023 and 2022, respectively. The Company is considering cash distribution of undistributed foreign earnings in the future and will continue to assess the potential impact of any future distributions on U.S. taxes. The state tax impact of a distribution of foreign earnings and profits would not be material.

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, 2023, the total amount of uncertain tax liabilities relates to federal and state tax credit carryforwards which are partially recorded net in deferred taxes and partially as a long term tax payable.

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, 2023 | For the Year Ended September 30, 2022 |
|---|---|---|
| | (Amounts in thousands) | |
| Balance, beginning of year | $ 502 | $ 433 |
| Additions for tax positions of current year | 22 | 68 |
| (Subtractions) additions for tax positions of prior years | (201) | 1 |
| Balance, end of period | $ 323 | $ 502 |

If the unrecognized tax benefits of $323 thousand as of September 30, 2023 are recognized, they would reduce our annual effective tax rate, subject to the valuation allowance. The Company does not expect our unrecognized tax benefits to change significantly over the next 12 months.

We file income tax returns in the U.S. federal jurisdiction 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 2020 through 2023, and believes that any tax adjustments not currently reserved in any audited year will not be material.

## 6. Property, Equipment and Improvements, Net

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

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| | (Amounts in thousands) | |
| Leasehold improvements | $ 224 | $ 224 |
| Equipment | 8,626 | 8,842 |
| Automobiles | 194 | 116 |
| Property, equipment and improvements, gross | 9,044 | 9,182 |
| Less accumulated depreciation and amortization | (8,519) | (8,535) |
| Property, equipment and improvements, net | $ 525 | $ 647 |

The Company uses the straight-line method over the estimated useful lives of the assets to record depreciation expense. Depreciation expense was $343 thousand and $350 thousand for the years ended September 30, 2023 and 2022, respectively.

## 7. Acquired Intangible Assets

As of September 30, 2023 and 2022, intangible assets are as follows:

| | September 30, 2023 | | | | September 30, 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Weighted Average Remaining Amortization Period | Gross | Accumulated Amortization | Net | Weighted Average Remaining Amortization Period | Gross | Accumulated Amortization | Net |
| | (Amounts in thousands) | | | | | | | |
| Customer list | 1 year | $ 90 | $ (89) | $ 1 | 2 years | $ 90 | $ (80) | $ 10 |
| Patent | 9 years | $ 51 | $ (6) | $ 45 | — | $ — | $ — | $ — |

Amortization expense on these intangible assets was $15 thousand and $9 thousand for the year ended September 30, 2023 and 2022, 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) |
|---|---|
| 2024 | $ 6 |
| 2025 | 5 |
| 2026 | 5 |
| 2027 | 5 |
| 2028 | 5 |
| Thereafter | 20 |
| Total | $ 46 |

## 8. Accounts payable and accrued expenses, and Other noncurrent liabilities

Accounts payable and accrued expenses consist of the following:

| | September 30, | |
|---|---|---|
| | 2023 | 2022 |
| | (Amounts in thousands) | |
| Accounts payable | $ 6,719 | $ 19,241 |
| Commissions | 615 | 631 |
| Compensation and fringe benefits | 1,958 | 1,607 |
| Professional fees | 199 | 175 |
| Taxes, other than income | 130 | 211 |
| Finance lease liability | — | 4 |
| Operating lease liability | 502 | 550 |
| Employee Retention Tax Credit Payable | 640 | — |
| Product warranty | 22 | 44 |
| Total | $ 10,785 | $ 22,463 |

The Company enters into certain multi-year agreements with vendors when also entering into some of the multi-year contracts the Company enters into with customers. See *Note 2 Accounts and Long-Term Receivable* for further information related to the multi-year agreements with customers.

There was not an interest rate stated in the agreements and therefore interest was imputed under *ASC 835 Interest* as the payments in the exchange represented two elements: principal and interest. The average weighted imputed interest rate for the agreements was determined to be 5.5%. The rate was determined primarily based on the rate the Company could obtain by financing from other sources at the date of the transaction.

Interest expense related to these agreements was $229 thousand and $260 thousand for the years ended September 30, 2023 and 2022, respectively.

The amounts owed for these agreements are within accounts payable and other noncurrent liabilities because they are owed to a vendor rather than banks or financial institutions for borrowings. See *Note 11 Line of Credit* and *Note 12 Notes Payable* for amounts due to banks and other financial institutions for borrowings.

Below are details of the aforementioned agreements with the vendors that contain imputed interest:

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| | (Amounts in thousands) | |
| Current | $ 1,718 | $ 1,758 |
| Less: discount | (140) | (186) |
| Accounts payable and accrued expenses | $ 1,578 | $ 1,572 |
| | | |
| Noncurrent | $ 1,967 | $ 3,186 |
| Less: discount | (116) | (140) |
| Other noncurrent liabilities | $ 1,851 | $ 3,046 |

The Company had a total of approximately $3.3 million due (net of interest) to one of these vendors as of September 30, 2023. This is approximately 26% of Accounts payable and other noncurrent liabilities. The Company had a total of approximately $16.1 million due (net of interest) to one of these vendors as of September 30, 2022. This is approximately 63% of Accounts payable and other noncurrent liabilities. The TS segment has many vendors it transacts with and does not have any specific agreement with this vendor that it must purchase certain products from the vendor. Management believes other suppliers could provide similar products with comparable terms.

## 9. Leases

Information related to both lessee and lessor

The following table specifies where the right-of-use assets, lease liabilities, and investment in lease are within the Consolidated Balance Sheets as of September 30, 2023 and 2022:

| | Condensed Balance Sheets Location | September 30, 2023 | September 30, 2022 |
|---|---|---|---|
| | | (Amounts in thousands) | |
| **Assets** | | | |
| Operating leases | Operating lease right-of-use assets | $ 966 | $ 1,160 |
| | | | |
| Lease receivable - current | Investment in lease, net-current portion | $ 8 | $ 17 |
| Lease receivable - noncurrent | Investment in lease, net-less current portion | 7 | 3 |
| Total lease receivable | | $ 15 | $ 20 |
| **Liabilities** | | | |
| Current operating lease liabilities | Accounts payable and accrued expenses | $ 502 | $ 550 |
| Non-current operating lease liabilities | Operating lease liabilities - noncurrent portion | 482 | 623 |
| Total operating lease liabilities | | $ 984 | $ 1,173 |
| | | | |
| Current finance lease liabilities | Accounts payable and accrued expenses | $ — | $ 4 |

The components of lease costs for the year ended September 30, 2023 and 2022 are as follows:

| | Condensed Consolidated Statements of Operations Location | Year ended September 30, 2023 | Year ended September 30, 2022 |
|---|---|---|---|
| | | (Amounts in thousands) | |
| Finance Lease: | | | |
| Interest on lease liabilities | Interest expense | $ 1 | $ 4 |
| Operating Lease: | | | |
| Operating lease cost | Selling, general, and administrative | 618 | 615 |
| Short-term lease cost | Selling, general, and administrative | 43 | 137 |
| Total lease costs | | $ 662 | $ 756 |
| Less sublease interest income | Revenue | (3) | (1) |
| Total lease costs, net of sublease interest income | | $ 659 | $ 755 |

Future lease payments under our non-cancellable leases and payments to be received as a sublessor as of September 30, 2023 are in the following table:

| Fiscal year ending September 30: | Operating lease Costs | Sublease Payments received |
|---|---|---|
| | (Amounts in thousands) | |
| 2024 | $ 535 | $ 10 |
| 2025 | 388 | 8 |
| 2026 | 107 | — |
| Total | $ 1,030 | $ 18 |
| Less imputed interest | (46) | (3) |
| Total | $ 984 | $ 15 |

Supplemental cash flow information related to leases for the fiscal year ended September 30, 2023 and 2022 is below:

| | Year ended | |
|---|---|---|
| | September 30, 2023 | September 30, 2022 |
| | (Amounts in thousands) | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows paid for operating leases | $ 628 | $ 633 |
| Operating cash flows paid for short-term leases | 43 | 137 |
| Operating cash flows paid for finance leases | 1 | 4 |
| Financing cash flows paid for finance leases | 4 | 47 |
| Lease assets obtained in exchange for new lease liabilities | | |
| Operating leases | 392 | 352 |
| Cash received from subleases | (20) | (49) |

Information as a lessee related to weighted averages of lease term and discount rate as of September 30, 2023 is below:

| Weighted-average remaining lease term (years) | September 30, 2023 |
|---|---|
| Operating leases | 2.0 |

| Weighted-average discount rate | September 30, 2023 |
|---|---|
| Operating leases | 6.4% |

## 10. Product Warranties

Product warranty activity for the year ended September 30 2023 and 2022 was as follows:

| | 2023 | 2022 |
|---|---|---|
| | (Amounts in thousands) | |
| Balance at the beginning of the year | $ 44 | $ 67 |
| Accruals for warranties for products sold in the period | — | — |
| Fulfillment of warranty obligations | (22) | (23) |
| Balance at the end of the year | $ 22 | $ 44 |

These amounts are within Accounts payable and accrued expenses on the Consolidated Balance Sheets.

## 11. Line of Credit

As of September 30, 2023 and September 30, 2022, the Company maintained an inventory line of credit with a borrowing capacity of $15.0 million. It may be used by the TS or HPP 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, however, late payments are subject to an interest charge of the rate published in the Wall Street Journal as the “prime rate” plus 5%. The prime rate was 8.5% as of September 30, 2023. There is no expiration date or minimum principal payment. However, the credit agreement for the inventory line of credit contains 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 $4.0 million, and (3) a maximum ratio of total liabilities to total net worth of less than 5.0:1. As of September 30, 2023 and September 30, 2022, Company borrowings, all from the TS segment, under the inventory line of credit were $1.5 million and $3.1 million, respectively, and the Company was in compliance with all covenants. There is no unused commitment fee. As of September 30, 2023 and September 30, 2022, this line of credit also included availability of a limited cash withdrawal option of up to $1.0 million. As of September 30, 2023 and 2022, there were no cash withdrawals outstanding.

## 12. Notes Payable

In October 2019, the Company borrowed $2.0 million with a 5.1% rate of interest related to a multi-year agreement with a customer. This is the only note payable outstanding as of September 30, 2023.

Interest expense related to the notes for the years ended September 30, 2023 and 2022 was $22 thousand and $50 thousand, respectively. Below are details of the notes payable.

| | September 30, 2023 | September 30, 2022 |
|---|---|---|
| | (Amounts in thousands) | |
| Current | $ 449 | $ 449 |
| Less: notes discount | — | (22) |
| Notes payable - current portion | $ 449 | $ 427 |
| | | |
| Noncurrent | $ — | $ 449 |
| Less: notes discount | — | — |
| Notes payable - noncurrent portion | $ — | $ 449 |

## 13. Pension and Retirement Plans

We have defined benefit and defined contribution plans in the U.K. and in the U.S. In the U.K., 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 plan in the U.K. is frozen to newly hired employees and has been for the two years ended September 30, 2023. In the U.S., the Company 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, 2023. 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 sheets. If the liabilities are below funding levels an asset is recorded.

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 $3.7 million and $3.5 million as of September 30, 2023 and 2022, 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 cannot 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, | |
| | 2023 | 2022 | 2023 | 2022 |
| Discount rate: | 5.62 % | 5.14 % | 5.4 % | 5.2 % |
| Expected return on plan assets: | | | 5.1 % | 6.0 % |

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, | |
| | 2023 | 2022 | 2023 | 2022 |
| Discount rate: | 5.14 % | 2.75 % | 5.4 % | 5.2 % |
| Expected return on plan assets: | | | 5.1 % | 6.0 % |

For domestic plans, the discount rate was determined by comparison against the FTSE pension 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, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | |
| | U.K. | U.S. | Total | U.K. | U.S. | Total |
| | (Amounts in thousands) | | | | | |
| **Pension:** | | | | | | |
| Interest cost | $ 429 | $ 13 | $ 442 | $ 268 | $ 11 | $ 279 |
| Expected return on plan assets | (575) | — | (575) | (449) | — | (449) |
| Amortization of past service costs | 7 | — | 7 | 7 | — | 7 |
| Amortization of net (gain) loss | — | (4) | (4) | 97 | 1 | 98 |
| Net periodic (benefit) cost | $ (139) | $ 9 | $ (130) | $ (77) | $ 12 | $ (65) |
| **Post Retirement:** | | | | | | |
| Service cost | $ — | $ 24 | $ 24 | $ — | $ 44 | $ 44 |
| Interest cost | — | 62 | 62 | — | 46 | 46 |
| Amortization of net gain | — | (196) | (196) | — | (7) | (7) |
| Net periodic (benefit) cost | $ — | $ (110) | $ (110) | $ — | $ 83 | $ 83 |
| ***Pension:*** | | | | | | |
| Decrease in minimum liability included in other comprehensive income | $ (313) | (1) | $ (314) | $ (3,509) | (20) | $ (3,529) |
| ***Post Retirement:*** | | | | | | |
| Increase (decrease) in minimum liability included in other comprehensive income | — | 70 | 70 | — | (567) | (567) |
| ***Total:*** | | | | | | |
| (Decrease) increase in minimum liability included in other comprehensive income | $ (313) | $ 69 | $ (244) | $ (3,509) | $ (587) | $ (4,096) |

The following table presents an analysis of the changes in 2023 and 2022 of the benefit obligation, the plan assets and the funded status of the plans:

| | Years Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | |
| | Foreign | U.S. | Total | Foreign | U.S. | Total |
| | (Amounts in thousands) | | | | | |
| ***Pension:*** | | | | | | |
| **Change in projected benefit obligation (“PBO”)** | | | | | | |
| Balance beginning of year | $ 7,726 | $ 261 | $ 7,987 | $ 14,317 | $ 339 | $ 14,656 |
| Interest cost | 429 | 13 | 442 | 268 | 11 | 279 |
| Changes in actuarial assumptions | (317) | (4) | (321) | (4,574) | (21) | (4,595) |
| Foreign exchange impact | 759 | — | 759 | (1,873) | — | (1,873) |
| Benefits paid | (521) | (68) | (589) | (412) | (68) | (480) |
| Projected benefit obligation at end of year | $ 8,076 | $ 202 | $ 8,278 | $ 7,726 | $ 261 | $ 7,987 |
| **Changes in fair value of plan assets:** | | | | | | |
| Fair value of plan assets at beginning of year | $ 8,825 | $ — | $ 8,825 | $ 11,921 | $ — | $ 11,921 |
| Actual gain (loss) on plan assets | 628 | — | 628 | (1,026) | — | (1,026) |
| Company contributions | 239 | 68 | 307 | 253 | 68 | 321 |
| Foreign exchange impact | 863 | — | 863 | (1,911) | — | (1,911) |
| Benefits paid | (521) | (68) | (589) | (412) | (68) | (480) |
| Fair value of plan assets at end of year | $ 10,034 | $ — | $ 10,034 | $ 8,825 | $ — | $ 8,825 |
| Funded status \ net amount recognized | $ 1,958 | $ (202) | $ 1,756 | $ 1,099 | $ (261) | $ 838 |
| | | | | | | |
| ***Post Retirement:*** | | | | | | |
| **Change in projected benefit obligation (“PBO”):** | | | | | | |
| Balance beginning of year | $ — | $ 1,186 | $ 1,186 | $ — | $ 1,670 | $ 1,670 |
| Service cost | — | 24 | 24 | — | 44 | 44 |
| Interest cost | — | 62 | 62 | — | 46 | 46 |
| Changes in actuarial assumptions | — | (125) | (125) | — | (574) | (574) |
| Projected benefit obligation at end of year | $ — | $ 1,147 | $ 1,147 | $ — | $ 1,186 | $ 1,186 |
| Funded status \ net amount recognized | $ — | $ (1,147) | $ (1,147) | $ — | $ (1,186) | $ (1,186) |

The amounts recognized in the consolidated balance sheet consist of:

| | Years Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | |
| | Foreign | U.S. | Total | Foreign | U.S. | Total |
| | (Amounts in thousands) | | | | | |
| ***Pension:*** | | | | | | |
| Accrued benefit asset (liability) | $ 1,958 | $ (202) | $ 1,756 | $ 1,099 | $ (261) | $ 838 |
| Deferred tax | — | 26 | 26 | — | 25 | 25 |
| Accumulated other comprehensive income | 318 | 8 | 326 | 631 | 9 | 640 |
| Net amount recognized | $ 2,276 | $ (168) | $ 2,108 | $ 1,730 | $ (227) | $ 1,503 |
| ***Post Retirement:*** | | | | | | |
| Accrued benefit liability | $ — | $ (1,147) | $ (1,147) | $ — | $ (1,186) | $ (1,186) |
| Deferred tax | — | 277 | 277 | — | 305 | 305 |
| Accumulated other comprehensive loss | — | (240) | (240) | — | (282) | (282) |
| Net amount recognized | $ — | $ (1,110) | $ (1,110) | $ — | $ (1,163) | $ (1,163) |
| ***Total pension and post retirement:*** | | | | | | |
| Accrued benefit asset (liability) | $ 1,958 | $ (1,349) | $ 609 | $ 1,099 | $ (1,447) | $ (348) |
| Deferred tax | — | 303 | 303 | — | 330 | 330 |
| Accumulated other comprehensive income (loss) | 318 | (232) | 86 | 631 | (273) | 358 |
| Net amount recognized | $ 2,276 | $ (1,278) | $ 998 | $ 1,730 | $ (1,390) | $ 340 |
| ***Accumulated Benefit Obligation:*** | | | | | | |
| Pension | $ (8,076) | $ (202) | $ (8,278) | $ (7,726) | $ (261) | $ (7,987) |
| Post Retirement | — | (1,147) | (1,147) | — | (1,186) | (1,186) |
| Total accumulated benefit obligation | $ (8,076) | $ (1,349) | $ (9,425) | $ (7,726) | $ (1,447) | $ (9,173) |

Plans with projected benefit obligations in excess of plan assets are attributable to unfunded domestic supplemental retirement plans.

Accrued benefit assets and liabilities reported as:

| | September 30, | |
|---|---|---|
| | 2023 | 2022 |
| | (Amounts in thousands) | |
| Non-current benefits assets | $ 1,958 | $ 1,099 |
| | | |
| Current accrued benefit liability | $ 98 | $ 110 |
| Non-current accrued benefit liability | 1,251 | 1,337 |
| Total accrued benefit liability | $ 1,349 | $ 1,447 |

As of September 30, 2023 and 2022, the amounts included in accumulated other comprehensive loss, consisted of deferred net losses totaling approximately $0.1 million and $0.4 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, 2023, is approximately $207 thousand.

**Contributions**

The Company expects to contribute $0.2 million to its pension plans in fiscal 2024.

**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) |
|---|---|
| 2024 | $ 575 |
| 2025 | $ 603 |
| 2026 | $ 643 |
| 2027 | $ 681 |
| 2028 | $ 730 |
| Thereafter | $ 1,249 |

**Plan Assets**

As of September 30, 2023, our pension plan in the U.K. was the only plan with assets, holding investments of approximately $10.0 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 U.K. pension plan by asset category are as follows:

| | Fair Values as of | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | September 30, 2023 | | | | September 30, 2022 | | | |
| | Fair Value Measurements Using Inputs Considered as | | | | Fair Value Measurements Using Inputs Considered as | | | |
| Asset Category | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 |
| | (Amounts in thousands) | | | | | | | |
| Cash on deposit | $ 428 | $ 428 | $ — | $ — | $ 200 | $ 200 | $ — | $ — |
| Fixed income | 8,703 | 7,251 | 1,452 | — | 1,801 | 1,253 | 548 | — |
| Equity | 903 | 266 | 637 | — | 6,824 | 3,539 | 3,285 | — |
| Total plan assets | $ 10,034 | $ 7,945 | $ 2,089 | $ — | $ 8,825 | $ 4,992 | $ 3,833 | $ — |

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.

Level 1 investments represent mutual funds for which a quoted market price is available on an active market. These investments primarily hold stocks or bonds, or a combination of stocks and bonds.

Level 2 investment represents a mutual fund, which a quoted market price is not available on an active market. Significant observable inputs that reflect quoted prices for similar assets or liabilities in active markets are used. This investment primarily holds stocks within developed global equity markets, excluding the UK.

*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 $206 thousand and $193 thousand for the years ended September 30, 2023 and 2022, respectively.

**14. Stock Based Incentive Compensation**

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. During fiscal year 2019 an additional 300,000 shares of common stock were authorized to be reserved for issuance pursuant to the 2015 Plan. During fiscal year 2022 an additional 400,000 shares of common stock were authorized to be reserved for issuance pursuant to the 2015 Plan. As of September 30, 2023, there were 245,404 shares available to be granted under the 2015 Plan. Under the 2015 Plan, incentive and non-qualified stock options and restricted stock awards may be granted to officers, key employees and other persons providing services to the Company. The 2015 Plan has a ten-year life.

Awards issued under the 2015 Plan are not affected by termination of the plan. The Company had no awarded stock options outstanding as of September 30, 2023 nor did it issue any for the two years ended September 30, 2023. The Company issues restricted stock awards at their fair value on the date of grant. Vesting of restricted stock awards granted pursuant to the 2015 Plan is determined by the Company's compensation committee. In fiscal years 2019 through 2023, the Company granted certain officers including its Chief Executive Officer and non-employee directors, and key employees shares of nonvested common stock. The vesting period for the officers' and the Chief Executive Officer's restricted stock awards is four years. The vesting for non-employee directors' restricted stock awards is one year. The vesting period for the key employees' restricted stock awards is typically four years or immediately.

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 Summary of Significant Accounting Policies*. Stock-based compensation expense incurred and recognized for the years ended September 30, 2023 and 2022 related to nonvested stock granted to employees and non-employee directors under the Company's stock incentive and employee stock purchase plans totaled approximately $1.1 million and $1.0 million, respectively. The classification of the cost of stock-based compensation, in the consolidated statements of operations, is consistent with the nature of the services being rendered in exchange for the share-based payment.

The following table summarizes stock-based compensation expense in the Company's consolidated statements of operations:

| | Years Ended | |
|---|---|---|
| | September 30, 2023 | September 30, 2022 |
| | (Amounts in thousands) | |
| Cost of sales | $ 2 | $ — |
| Engineering and development | 107 | 56 |
| Selling, general and administrative | 1,018 | 923 |
| Total | $ 1,127 | $ 979 |

For the year ended September 30, 2023, the Company granted 71,172 nonvested shares to certain key employees, 52,000 nonvested shares to certain officers including 35,000 shares granted to the Chief Executive Officer, and 20,000 nonvested shares to its non-employee directors. For the year ended September 30, 2022, the Company granted 80,246 nonvested shares to certain key employees, 52,000 nonvested shares to certain officers including 38,000 shares granted to the Chief Executive Officer, and 20,000 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. All equity compensation awards granted for the years ended September 30, 2023 and September 30, 2022 were restricted 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 have been reduced for estimated forfeitures. The forfeiture rates for the years ended September 30, 2023 and 2022 were based on actual forfeitures.

No cash was used to settle equity instruments granted under share-base payment arrangements in any of the years in the two-year period ended September 30, 2023.

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

| | Number of Options | | Weighted average exercise price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|---|
| Outstanding at September 30, 2021 | 500 | $ | 3.43 | — | — |
| Granted | — | | — | — | — |
| Expired | (500) | | 3.43 | — | — |
| Forfeited | — | | — | — | — |
| Exercised | — | | — | — | — |
| Outstanding at September 30, 2022 | — | $ | — | — | — |
| Granted | — | | — | — | — |
| Expired | — | | — | — | — |
| Forfeited | — | | — | — | — |
| Exercised | — | | — | — | — |
| Outstanding at September 30, 2023 | — | $ | — | — | — |

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

| | Shares | | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Term | | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|---|---|
| Nonvested shares outstanding at September 30, 2021 | 197,063 | $ | 10.28 | 2.15 Years | $ | 1,760 |
| Activity in fiscal year 2022: | | | | | | |
| Granted | 152,246 | $ | 8.53 | — | | — |
| Vested | (87,957) | $ | 10.57 | — | | — |
| Forfeited | (1,564) | $ | 13.24 | — | | — |
| Nonvested shares outstanding at September 30, 2022 | 259,788 | $ | 9.14 | 2.38 Years | $ | 1,868 |
| Activity in fiscal year 2023: | | | | | | |
| Granted | 143,172 | $ | 10.09 | — | | — |
| Vested | (107,885) | $ | 9.36 | — | | — |
| Nonvested shares outstanding at September 30, 2023 | 295,075 | $ | 9.53 | 2.33 Years | $ | 5,164 |

As of September 30, 2023, there was $2.0 million of total unrecognized compensation cost related to nonvested stock-based compensation arrangements (including 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 2.57 years. The total fair value of shares vested during the years ended September 30, 2023 and 2022 was $1.0 million and $0.9 million, respectively.

**15. Employee Stock Purchase Plan**

In December 2013, the Board of Directors of the Company adopted the 2014 Employee Stock Purchase Plan (the "ESPP") covering up to 250,000 shares of Common Stock, which was ratified by a vote of the Company's shareholders in February 2014. An additional 300,000 shares of common stock were approved by stockholders in fiscal year 2023. 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 value as of the beginning or end of semi-annual option periods. Pursuant to the ESPP, the Company issued 30,885 and 31,372 shares for the years ended September 30, 2023 and September 30, 2022, respectively. As of September 30, 2023, 269,535 shares remain authorized to be issued under the Employee Stock Purchase Plan.

**16. Repurchase of Common Stock**

On February 8, 2011, the Board of Directors authorized the Company to purchase up to 250 thousand additional shares of the Company's outstanding common stock at market price. The plan does not expire. The Company repurchased 600 shares of its outstanding common stock on the open market during fiscal year 2023. As of September 30, 2023, 171,127 shares remain authorized to repurchase under the stock repurchase program.

Table of Contents

## 17. Segment Information

The following table presents certain operating segment information.

| Year ended September 30, | High Performance Products Segment | Technology Solutions Segment: United Kingdom | Technology Solutions Segment: U.S. | Technology Solutions Segment: Total | Consolidated Total |
|---|---|---|---|---|---|
| | (Amounts in thousands) | | | | |
| **2023** | | | | | |
| Sales: | | | | | |
| Product | $ 5,475 | $ 734 | $ 40,940 | $ 41,674 | $ 47,149 |
| Service | 1,398 | 288 | 15,812 | 16,100 | 17,498 |
| Total sales | $ 6,873 | $ 1,022 | $ 56,752 | $ 57,774 | $ 64,647 |
| Operating (loss) income | $ (2,708) | $ (64) | $ 4,642 | $ 4,578 | $ 1,870 |
| Interest expense | $ (12) | $ — | $ (250) | $ (250) | $ (262) |
| Interest income | $ 20 | $ 177 | $ 1,263 | $ 1,440 | $ 1,460 |
| Total assets | $ 10,467 | $ 7,361 | $ 48,076 | $ 55,437 | $ 65,904 |
| Capital expenditures | $ (75) | $ — | $ (151) | $ (151) | $ (226) |
| Depreciation and amortization | $ (112) | $ — | $ (246) | $ (246) | $ (358) |
| **2022** | | | | | |
| Sales: | | | | | |
| Product | $ 2,516 | $ 518 | $ 33,654 | $ 34,172 | $ 36,688 |
| Service | 1,327 | 325 | 16,021 | 16,346 | 17,673 |
| Total sales | $ 3,843 | $ 843 | $ 49,675 | $ 50,518 | $ 54,361 |
| Operating (loss) income | $ (4,888) | $ (204) | $ 5,052 | $ 4,848 | $ (40) |
| Interest expense | $ (48) | $ — | $ (312) | $ (312) | $ (360) |
| Interest income | $ 40 | $ 53 | $ 557 | $ 610 | $ 650 |
| Total assets | $ 8,855 | $ 10,069 | $ 56,138 | $ 66,207 | $ 75,062 |
| Capital expenditures | $ (89) | $ — | $ (145) | $ (145) | $ (234) |
| Depreciation and amortization | $ (118) | $ — | $ (241) | $ (241) | $ (359) |

Operating (loss) income 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 foreign exchange gain (loss), investment income, and interest expense. In fiscal year 2023 the Employee Retention Tax Credit was the largest non-operating income item, which did not occur in fiscal year 2022. All intercompany transactions have been eliminated. Our long-lived assets are located in North America.

The following table details the Company's sales by operating segment for fiscal years ended September 30, 2023 and 2022. The Company's sales by geographic area based on the location of where the products were shipped or services rendered are as follows:

| 2023 | Americas | Europe | Asia | Total | % of Total |
|---|---|---|---|---|---|
| | (Amounts in thousands) | | | | |
| TS | $ 56,584 | $ 1,094 | $ 96 | $ 57,774 | 89 % |
| HPP | 6,179 | 335 | 359 | 6,873 | 11 % |
| Total | $ 62,763 | $ 1,429 | $ 455 | $ 64,647 | 100 % |
| % of Total | 97 % | 2 % | 1 % | 100 % | |
| **2022** | | | | | |
| TS | $ 49,285 | $ 1,069 | $ 164 | $ 50,518 | 93 % |
| HPP | 3,201 | 338 | 304 | 3,843 | 7 % |
| Total | $ 52,486 | $ 1,407 | $ 468 | $ 54,361 | 100 % |
| % of Total | 96 % | 3 % | 1 % | 100 % | |

The following table lists customers from which the Company derived revenues in excess of 10% of total revenues for the years ended years ended September 30, 2023 and 2022.

| | Year ended September 30, | | | |
|---|---|---|---|---|
| | 2023 (in millions) | | 2022 (in millions) | |
| | Customer Revenues | % of Total Revenues | Customer Revenues | % of Total Revenues |
| Customer A | $ 2.8 | 4 % | $ 10.4 | 19 % |

In addition, accounts receivable from Customer A totaled approximately $7.4 million, or 30%, and approximately $15.8 million, or 52%, of total consolidated accounts receivable as of September 30, 2023 and September 30, 2022, respectively. We believe that the Company is not exposed to any significant credit risk with respect to the accounts receivable with this customer as of September 30, 2023. No other customers accounted for 10% or more of total consolidated accounts receivable as of September 30, 2023.

## 18. Fair Value Disclosures

Under the fair value standards fair value is based on the exit price and defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement should reflect all the assumptions that market participants would use in pricing an asset or liability. A fair value hierarchy is established in the authoritative guidance outlined in three levels ranking from Level 1 to level 3 with Level 1 being the highest priority.

Level 1: observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly

Level 3: unobservable inputs (e.g., a reporting entity's or other entity's own data)

The Company had no assets or liabilities measured at fair value on a recurring (except our pension plan assets, see *Note 13 Pension and Retirement Plan*) or non-recurring basis as of September 30, 2023 or September 30, 2022.

To estimate fair value of the financial instruments below quoted market prices are used when available and classified within Level 1. If this data is not available, we use observable market-based inputs to estimate fair value, which are classified within Level 2. If the preceding information is unavailable, we use internally generated data to estimate fair value which is classified within Level 3.

| | As of September 30, 2023 | | As of September 30, 2022 | | | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Fair Value Level | Reference |
| | (Amounts in thousands) | | | | | |
| **Assets:** | | | | | | |
| Cash and cash equivalents | $ 25,217 | $ 25,217 | $ 23,982 | $ 23,982 | 1 | Condensed Consolidated Balance Sheets |
| Accounts and long-term receivable* | 11,395 | 11,395 | 16,328 | 16,328 | 3 | Note 2 |
| **Liabilities:** | | | | | | |
| Accounts payable and accrued expenses and other long-term liabilities* | 3,429 | 3,429 | 4,618 | 4,618 | 3 | Note 8 |
| Line of Credit | 1,515 | 1,515 | 3,124 | 3,124 | 2 | Note 11 |
| Notes payable | 449 | 449 | 876 | 876 | 3 | Note 12 |

*Original maturity over one year

Cash and cash equivalents
Carrying amount approximated fair value.

Accounts and long-term receivable with original maturity over one year
Fair value was estimated by discounting future cash flows based on the current rate with similar terms.

Line of credit
The fair value of our line of credit is based on borrowing rates currently available to a market participant for loans with similar terms or maturity. The carrying amount of our outstanding revolving line of credit approximates fair value because the base interest rate charged varies with market conditions and the credit spread is commensurate with current market spreads for issuers of similar risk. No interest accrues under the inventory line of credit when advances are paid within terms.

Notes Payable
Fair value was estimated by discounting future cash flows based on the current rate the Company could get in another transaction with similar terms based on historical information.

Fair value of accounts receivable with an original maturity of one year or less and accounts payable was not materially different from their carrying values as of September 30, 2023, and 2022.

## 19. Dividend

For the fiscal year ended September 30, 2023 the Company paid cash dividends as follows:

| Fiscal Year | Date Declared | Record Date | Date Paid | Amount Paid Per Share |
|---|---|---|---|---|
| 2022 | 8/10/2022 | 8/22/2022 | 9/9/2022 | $ 0.03 |
| 2023 | 12/6/2022 | 12/21/2022 | 1/6/2023 | $ 0.03 |
| 2023 | 2/8/2023 | 2/24/2023 | 3/14/2023 | $ 0.03 |
| 2023 | 5/10/2023 | 5/25/2023 | 6/13/2023 | $ 0.04 |
| 2023 | 8/9/2023 | 8/23/2023 | 9/12/2023 | $ 0.04 |

## 20. Related Party Transactions

Gary Southwell, Vice President and General Manager of High Performance Products segment, is a minority shareholder in one of our vendors. He has no operational responsibilities. There were $316 thousand and $156 thousand of purchases from this vendor for the fiscal year ended September 30, 2023 and 2022, respectively. There were no amounts due to the vendor as of September 30, 2023 or 2022.

**Exhibit 21.1**

## SUBSIDIARIES OF THE REGISTRANT

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

| NAME OF SUBSIDIARY | STATE OR OTHER JURISDICTION OF INCORPORATION/ ORGANIZATION |
|---|---|
| CSP Securities Corp.<br>175 Cabot Street, Suite 210<br>Lowell, MA 01854 | Massachusetts |
| CSP Inc. Foreign Sales Corp., Ltd.<br>175 Cabot Street, Suite 210<br>Lowell, MA 01854 | U.S. Virgin Islands |
| Modcomp, Inc (1).<br>1182 East Newport Center Drive<br>Deerfield Beach, FL 33442 | Delaware |

(1) Modcomp has one subsidiary operating in Europe

**EXHIBIT 23.1**

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in these Registration Statements (Nos. 333-64493, 333-124030, 333-124031, 333-151024, 333-197608, 333-207229, 333-231650, 333-263764, and 333-269441) on Form S-8 of CSP Inc. and Subsidiaries of our report dated December 13, 2023, relating to the consolidated financial statements of CSP Inc. and Subsidiaries, appearing in this Annual Report on Form 10-K of CSP Inc. for the year ended September 30, 2023.

/s/ RSM US LLP

Coral Gables, Florida
December 13, 2023

**Exhibit 31.1**

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 13, 2023

/s/ Victor Dellovo

Victor Dellovo
Chief Executive Officer and
President

**Exhibit 31.2**

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

I, Gary W. Levine, certify that:

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

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

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

4.The registrant’s other certifying officer(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 13, 2023

/s/Gary W. Levine

Gary W. Levine
Chief Financial Officer

**Exhibit 32.1**

**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, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned Chief Executive Officer 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 13, 2023

By: /s/ Victor Dellovo
Victor Dellovo
Chief Executive Officer and President

December 13, 2023

By: /s/ Gary W. Levine
Gary W. Levine
Chief Financial Officer

**CSP, INC.**

**CLAWBACK POLICY**

1. In the event CSP, Inc. (the "Company") is required to prepare an accounting restatement after the adoption of this policy due to material noncompliance of the Company with any financial reporting requirement under the securities laws, the Company will use reasonable efforts to recover from any current or former executive officer of the Company, and any other person designated by the Company's board of directors as being subject to paragraph 1 of this policy (together with the executive officers, a "Covered Person"), who received incentive-based compensation from the Company during the 3-year period preceding the date on which the Company is required to prepare an accounting restatement, based on the erroneous data, the excess of what would have been paid to the Covered Person under the accounting restatement.

2. In addition to (and without limiting) the provisions of paragraph 1 above, in the event the Company is required to prepare an accounting restatement after the adoption of this policy due to material noncompliance of the Company with any financial reporting requirement under the securities laws, the Company will use reasonable efforts to recover from any current or former employee of the Company who is not a Covered Person but who is described by the following sentence who received incentive-based compensation from the Company during the 3-year period preceding the date on which the Company is required to prepare an accounting restatement (each a "Participating Employee"), based on the erroneous data, the excess of what would have been paid to the Participating Employee under the accounting restatement. This paragraph 2 will apply to any current or former employee who the Board of Directors (or a duly established committee thereof), in its sole discretion, determines committed any act or omission that contributed to the circumstances requiring the restatement and which involved any of the following: (i) negligence, misconduct, wrongdoing or a violation of any of the Company's rules or of any applicable legal or regulatory requirements in the course of the Participating Employee's employment by, or otherwise in connection with, the Company; or (ii) a breach of a fiduciary duty to the Company or its shareholders by the Participating Employee.

3. In addition to (and without limiting) the provisions of paragraphs 1 and 2 above, in the event that the Board of Directors (or a duly established committee thereof), in its sole discretion, determines that a Covered Person's or a Participating Employee's act or omission that contributed to the circumstances requiring the restatement involved any of the following: (i) willful, knowing or intentional misconduct or a willful, knowing or intentional violation of any of the Company's rules or any applicable legal or regulatory requirements in the course of the Covered Person's or the Participating Employee's employment by, or otherwise in connection with, the Company or (ii) fraud in the course of the Covered Person's or the Participating Employee's employment by, or otherwise in connection with, the Company, then in each such

case, the Company will use reasonable efforts to recover from such Covered Person or Participating Employee, up to I00% (as determined by the Board or committee in its sole discretion as appropriate conduct involved) of such incentive-based compensation from the Company during the 3-year period preceding the date on which the Company is required to prepare an accounting restatement, and not just the excess of what would have been paid to the Covered Person or the Participating Employee under the accounting restatement.

4. This policy shall apply to incentive-based compensation that is granted to a Covered Person or a Participating Employee after the adoption of this policy (or, if later, the date on which such person becomes a Covered Person or Participating Employee, as applicable). This policy shall be interpreted in a manner that is consistent with any applicable rules or regulations adopted by the Securities and Exchange Commission and NASDAQ pursuant to Section 10D of the Securities Exchange Act of 1934 (the "Applicable Rules") and any other applicable law and shall otherwise be interpreted (including in the determination of amounts recoverable) in the business judgment of the Company's Board of Directors (or a duly established committee thereof). To the extent the Applicable Rules require recovery of incentive-based compensation in additional circumstances besides those specified above, nothing in this policy shall be deemed to limit or restrict the right or obligation of the Company to recover incentive-based compensation to the fullest extent required by the Applicable Rules. This policy shall be deemed to be automatically amended, as of the date the Applicable Rules become effective with respect to the Company, to the extent required for this policy to comply with the Applicable Rules.