

2006 Annual Report
Year Ended September 30, 2006



Systems & Integration Solutions

President's Letter

Dear Shareholders:

Fiscal 2006 was a very successful year for CSP. We grew our top line and bottom line and won the largest contract award in the history of our MultiComputer Division.

For fiscal 2006, CSP reported a 20% increase in sales to \$69.0 million from \$57.5 million in fiscal 2005. Net income for fiscal 2006 increased by \$1.2 million to \$2.0 million, or \$0.52 per diluted share, from \$753,000, or \$0.20 per diluted share, for fiscal 2005. Net income for fiscal 2006 includes \$1.1 million of tax benefit for the reversal of a portion of the deferred tax valuation allowance. Net income for fiscal 2006 also includes \$384,000 for professional fees related to the previously announced restatement of the Company's interim and annual financial results for fiscal 2004 and fiscal 2003, restructuring expenses of \$516,000 and equity-based compensation expense of \$286,000.

MultiComputer Division Review

The U.S. military's vision for 21st century battlefield superiority is squarely in line with our MultiComputer Division's strategy: to build architecturally superior products based on open system technologies. Our multiprocessing systems provide critical digital signal processing (DSP) functionality for advanced defense applications in command and control, communications, computer intelligence and surveillance, including software defined radio, radar and sonar.

An important component of our multicomputer strategy is to continually invest in product development to ensure that we are well positioned to provide solutions for the evolving needs of our customers. These investments paid off in 2006 with several important contract wins for our FastCluster 220R systems. First introduced two years ago, the FastCluster 220R is a fully rugged, commercial-off-the-shelf (COTS) hardware and software scalable multicomputer platform. The FastCluster 220R delivers real-time signal processing, optimized performance, code re-use and portability, a flexible design and field scalability.

During the year we won an award for FastCluster 220Rs from Raytheon Company valued at \$17 million to \$18 million -- the largest contract in CSP's history. We are proud that Raytheon has such high confidence in the quality and performance of our multicomputers and in our ability to meet critical deadlines. Delivery of the systems began during the first quarter of fiscal 2007, and we expect shipments to continue throughout the year.

Another notable multicomputer award in fiscal 2006 came from Lockheed Martin Corporation. We received a contract to supply Lockheed Martin with FastCluster multicomputers for its real-time computing platform in support of the U.S. Navy's Radar Scene Generation (RSG) Program. RSG provides a test and evaluation resource at the Navy's Combat System Engineering Development Site for the Aegis Combat System. Utilizing the FastCluster platform reduces development time and costs for the RSG program and supports the Defense Advanced Research Projects Agency (DARPA)'s vision of "write once, run everywhere." We have already shipped FastCluster systems to support the first phase of the RSG program, and plan to ship additional FastCluster multicomputers to fulfill the remaining requirements of the program.

Product innovation at our MultiComputer Division means closely monitoring the competitive environment, planning our product roadmap to meet the military's future needs, and listening to our customers. During the year, our R&D efforts resulted in the announcement of the next generation FastCluster, the 3000 SERIES with the

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most advanced interconnect and processing density technology available in the market today. This new product will provide our customers with unrivaled performance and another fully ruggedized open source system. We expect that the customer interest in the FastCluster 3000 SERIES that we have seen this year will result in future multicomputer growth opportunities.

MODCOMP Review

Our MODCOMP subsidiary also performed well during fiscal 2006, contributing to the overall growth of the company. However, this year was not without its challenges.

MODCOMP's operation in Germany provides superior value to its customers by enhancing network productivity and security while reducing IT maintenance costs. During the year, two of our large integration services customers significantly decreased their contract service levels to cut costs. As a result, we reduced our German workforce in order to align staffing with the current level of business volume. We continue to see demand for our maintenance, systems installation, consulting and outsourcing services as customers continue to consolidate servers and associated storage systems and focus on upgrading network security infrastructure. We are optimistic that this demand will result in continued growth for this business in fiscal 2007.

Our U.S.-based IT Systems and Solutions division performed well in fiscal 2006. We have discussed our goal to capitalize on the need for our integrated IT infrastructure solutions by adding to our direct sales force. This effort has paid off with strong revenue growth for the Systems and Solutions division, and we plan to continue to focus on this goal. We are particularly pleased by this growth, considering that the division was disrupted for an extended period in October 2005 due to Hurricane Wilma.

Shortly after the close of the fourth quarter, we announced that the Systems and Solutions division would no longer act as a reseller for Dell Inc. While we are disappointed with Dell's decision, we are encouraged by the prospects for establishing new reseller relationships with the potential to replace and eventually exceed the value we derived from our agreement with Dell. We are seeing significant demand for quality integrated IT infrastructure solutions, and we plan to leverage our expertise in this area and grow the Systems and Solutions division business for the long-term.

We are optimistic about our prospects for fiscal 2007. The investments we have made in the development of advanced multicomputer products have resulted in major contract wins, and we continue to see growing demand for MODCOMP's IT systems integration services and cutting edge IT solutions.

I would like to thank our employees, suppliers, customers, and especially you, our loyal shareholders, for making fiscal 2006 a success. We look forward to sharing our success with you as we capitalize on the many opportunities for growth that we see in our markets.

Sincerely,



Alexander R. Lupinetti
Chairman, President, and CEO
February 20, 2007

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