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Dear Shareholders,

Fiscal 2011 was a successful year for CSP, despite lower sales to a major customer in our Service and Systems Integration segment. Although total sales were down 18% from fiscal 2010 to $73.6 million, the business continued to be solidly profitable, as net income totaled $369,000, or $0.10 per diluted share. Cash from operations remained strong, enabling us to extend the Company's stock repurchase program and conclude the year by paying an annual dividend of $0.10 per share, while still maintaining a healthy cash balance.

In CSP's Systems segment, fiscal 2011 marked the conclusion of high-margin royalty payments from Lockheed Martin related to the Low Rate Initial Production (LRIP) phases one and two of the Navy's E2D Advanced Hawkeye intelligence, surveillance and reconnaissance (ISR) aircraft, for which we provide advanced radar processing capabilities. However, the comparison with the prior year was difficult because of the large follow-on order we received from Raytheon in fiscal 2010. As a result, Systems segment sales declined 6% and gross margin was approximately 200 basis points lower, year-over-year.

Several positive fiscal 2011 developments position the Systems segment for improved performance in the year ahead. The approved Department of Defense budget included 10 new E2D Hawkeye aircraft, which we expect will be built over the next few years. This opens up the potential for us to participate in LRIP phases three and four, thus maintaining our presence on a key platform for naval early warning and battle management command and control.

In addition, we are actively marketing the FastCluster 3000 SERIES Open VPX and 4000 SERIES AdvancedTCA multicomputers we launched in fiscal 2010, and we recently introduced our next-generation FastCluster 3000 SERIES Open VPX multicomputer with converged fabric. Offering both open interconnect for VPX technology along with converged fabric, this exciting new product is ideal for military high-performance embedded computing platforms that require high bandwidth and scalability across boards and systems. These capabilities demonstrate the continued success of our strategy to invest in innovative multicomputer technology that capitalizes on emerging opportunities in ISR, which we believe continues to be an important U.S. military priority.

Our Service and Systems Integration segment, which includes our MODCOMP subsidiary, successfully managed the major challenge we anticipated for fiscal 2011: a significant drop in business with the segment's largest customer – a web hosting company that provides outsourcing of computer infrastructure, storage and communications resources. Sales in the Service and Systems Integration segment were down 20% from the prior year, as a result of this decline.

However, both our subsidiary in Germany and our U.S. Systems and Solutions division made good progress in fiscal 2011 executing on our strategy to grow the higher-margin areas within the segment – consulting as well as solutions and managed services. In particular, we benefited from solid growth in demand for our consulting services related to security and storage management. We also experienced a shift in our business mix toward smaller, higher-margin deals, as well as a higher staff utilization rate in our German subsidiary. As a consequence, our gross margin was up by approximately 300 basis points from fiscal 2010.

The strength in our business in Germany was driven, in part, by growing sales to Vodaphone, one of the world's largest mobile telecommunications network companies. This growth reflects continued progress in our partnership with California-based nCircle, which specializes in automated IT security and compliance auditing solutions. nCircle provides the infrastructure for MODCOMP's managed services offering, in addition to our reselling nCircle's on-premise solutions to MODCOMP customers in Germany. Looking forward, we anticipate continued strong demand for our products and services in the IT security market.

We are approaching fiscal 2012 with cautious optimism.   As we are encouraged by the potential for further E2D Hawkeye LRIP activity with Lockheed Martin in our Systems segment and we also anticipate continued growth in higher-margin consulting, solutions and managed services business at our Service and Systems Integration Segment as the year unfolds.

As always, we will maintain our conservative approach to managing CSP's operations and financial position, tightly managing our expenses and focusing on efficient working capital management with the goal of driving long-term profitable growth. Due to the working capital needed to fund large projects in both of our business segments, CSP's cash position varies significantly from quarter to quarter. Consequently, maintaining a healthy cash balance is crucial to our financial model. In addition, we believe it is important to have the cash on hand necessary to finance growth opportunities.

In recently deciding to pay an annual dividend, the board of directors carefully evaluated CSP's current cash position, and considered alternatives for deploying the Company's cash – including stock repurchases. Capping a fiscal year during which CSP bought back approximately 166,000 shares of its stock, the board determined that paying a cash dividend was proper and prudent in order to reward and generate value for our shareholders in return for their commitment to CSP. Going forward, the board intends to review the Company's financial performance, balance sheet and working capital requirements each year to determine any future annual dividends.

On behalf of everyone at CSP, I extend deep appreciation to our employees, suppliers, customers and you, our shareholders, for continuing to place your trust in us and in CSP. We look forward to reporting on our progress in the year ahead.

Sincerely,

A. R. Lupinetti

Alexander R. Lupinetti
Chairman, President and CEO
December 2011