

## Company Profile

To meet the diverse requirements of its industrial, commercial, scientific and defense customers worldwide, CSPI and its subsidiaries develop and market cutting-edge integration solutions for complex IT environments and high-performance cluster computer systems for military applications.

### MODCOMP, Inc.

The Company's Modcomp, Inc. subsidiary is a leading provider of cutting-edge IT solutions and integration services for complex IT environments. Modcomp provides storage and servers, network security, and unified communications and has offices in the U.S., U.K. and Germany.

### CSP Inc., MultiComputer Division

The MultiComputer Division designs and builds high-performance cluster computing systems for the defense market. These systems are dense and rugged with powerful real-time I/O and require minimum physical space or power. These systems are used on land, airborne and ship-board platforms for high speed digital signal processing in radar, sonar and surveillance applications.

## Strategy

CSP Inc. has a five point strategy to grow the company:

- 1) provide cutting-edge IT integration solutions for complex IT environments
- 2) develop architecturally superior high performance cluster computer systems based on open systems technologies for military applications
- 3) leverage core competencies to extend key technologies to new growth markets like hybrid computing and unified communications
- 4) provide pipeline of innovative products and services to maintain strong relationships with customers
- 5) seek additional opportunities for growth through acquisitions and strategic partnerships

## Highlights

### Fourth-Quarter and Year-End Fiscal 2008 Financial Results

December 17, 2008 - For the fourth quarter of fiscal 2008, CSP Inc. sales were \$18.1 million compared with \$28.1 million in the fourth quarter of fiscal 2007. Net loss for the fourth quarter of fiscal 2008 was \$328 thousand, or \$0.09 per share, compared with net income of \$1.9 million, or \$0.49 per diluted share, in the fourth quarter of fiscal 2007.

For full-year fiscal 2008, CSP Inc. sales were \$76.8 million compared with \$94.0 million for fiscal 2007. Net loss for fiscal 2008 was \$407 thousand, or \$0.11 per share, compared with net income of \$4.0 million, or \$1.03 per diluted share, for fiscal 2007.

"As expected, our year-over-year decline in revenue for fiscal 2008 was primarily the result of lower sales at our Systems business due to shifting military priorities away from strategic programs, and a difficult year-over-year comparison with fiscal 2007," said CSP Chairman and Chief Executive Officer Alexander R. Lupinetti. "In fiscal 2007, we recorded significant revenue from an unusually large supply contract with Raytheon."

"During fiscal 2008, we reported Systems revenue from a number of smaller multicomputer deals, but a few of the contracts we had expected to record in fiscal 2008 have been pushed out to fiscal 2009 and 2010," continued Lupinetti. "As a result, we have a stronger order pipeline going into fiscal 2009 and expect revenue growth year-over-year. We anticipate a more typical revenue run rate in fiscal 2009 that should approximate the level of sales we reported in the years prior to the major Raytheon contract."

"Overall, our Service and Systems Integration segment made significant progress this year," said Lupinetti. "Our revenue for the business was lower on a year-over-year basis as the German subsidiary reported two large installation contracts in fiscal 2007 that did not repeat in fiscal 2008. However, as a result of significantly higher margins due to a greater mix of professional services revenues, operating income from the German subsidiary was only slightly lower on a year-over-year basis. Enhancing margins by growing the Lifecycle Management, Archiving and Network Migration professional services practices has been a key strategy for the German subsidiary. We expect this business to report large installation deals in fiscal 2009 as well as continue to grow its professional services practices."

### Modcomp Inc., acquires R2 Technologies - "Gains Solid Position in Growing Unified Communications Market"

September 25, 2008 - Modcomp Systems and Solutions (a subsidiary of CSP Inc.) announced that it has acquired Miami-based R2 Technologies, an IT Solutions and Managed Services Provider. Modcomp purchased R2 Technologies for \$2 million in an all-cash transaction. The Company expects the acquisition to be immediately accretive. R2 Technologies recorded revenues of \$7.3 million in the 12 months ended June 2008.

R2 Technologies proven expertise in Unified Communications, Security and Advanced Server & Network Technologies guides companies through the process of creating and maintaining the most secure, unified and cost-effective IT environments. R2 Technologies will be operated as a division of MODCOMP's Florida-based Systems and Solutions Division.



## Financial Highlights

(Amounts in thousands, except per share data)

### Selected Four Year Financial Data

<b>Fiscal Year:</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Sales	\$76,782	\$94,038	\$68,937	\$57,490	\$51,402
Net income (loss)	(\$407)	\$4,049	\$1,975	\$753	\$1,211
Net income (loss) per share-diluted	(\$0.11)	\$1.03	\$0.52	\$0.20	\$0.32
Weighted average number of shares outstanding-diluted	3,783	3,933	3,805	3,822	3,743

### Selected Quarterly Financial Data

<b>Quarter Ended:</b>	<b>9/30/08</b>	<b>6/30/08</b>	<b>3/31/08</b>	<b>12/31/07</b>
Sales	\$18,073	\$19,155	\$21,615	\$17,939
Net income	(\$328)	(\$8)	\$189	(\$259)
Net income per share-diluted	(\$0.09)	(\$0.00)	\$0.05	(\$0.07)
Weighted average number of shares outstanding-diluted	3,760	3,778	3,847	3,802

### Selected Quarterly Balance Sheet Data

<b>Quarter Ended:</b>	<b>9/30/08</b>	<b>6/30/08</b>	<b>3/31/08</b>	<b>12/31/07</b>
<b>Assets</b>				
Current Assets	\$41,348	\$36,368	\$36,195	\$37,302
Property, equipment improvements, net	1,003	1,034	1,051	1,083
Other assets	<u>7,668</u>	<u>10,403</u>	<u>10,328</u>	<u>5,455</u>
Total assets	<u>\$50,019</u>	<u>\$47,805</u>	<u>\$47,574</u>	<u>\$43,840</u>
<b>Liabilities &amp; Shareholders' Equity</b>				
Total current liabilities	17,775	14,075	13,919	10,875
Other liabilities	8,296	7,997	7,923	7,610
Shareholders' equity	<u>23,948</u>	<u>25,733</u>	<u>25,732</u>	<u>25,355</u>
Total liabilities and shareholders' equity	<u>\$50,019</u>	<u>\$47,805</u>	<u>\$47,574</u>	<u>\$43,840</u>

## Stock Information

NASDAQ symbol:	CSPI
Shareholders' equity (9/30/08):	\$23.9 million
Shares outstanding (9/30/08):	3.76 million
FY '08 52 week high / low:	\$9.16/\$4.76
Stock price (09/30/08):	\$5.27

## Management

### Alexander R. Lupinetti

Chairman of the Board, President and Chief Executive Officer

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