

CSP Inc.

Charter for the Audit Committee of the Board of Directors

The board of directors of CSP Inc., a Massachusetts corporation (the “Company”), has appointed an audit committee of the board of directors. This charter states the authority and responsibilities of the audit committee.

1. Purpose. The purpose of the audit committee is to assist the board in fulfilling its oversight responsibilities relating to (a) the quality and integrity of the Company’s financial statements and other financial reports, (b) the Company’s system of internal accounting controls, (c) the performance of the Company’s internal and independent auditors and (d) the Company’s compliance with legal and regulatory requirements. The audit committee shall also perform such other duties as the board of directors shall delegate to it or as otherwise required by law or the Company’s charter or by-laws.

2. Membership; Appointment; Qualifications. The audit committee shall consist of at least three members of the board of directors. The members of the audit committee shall be appointed by, and serve at the discretion of, the board of directors. In selecting the members of the audit committee, the board shall endeavor to ensure that each member of the audit committee satisfies the applicable independence, financial literacy and other requirements of the Nasdaq Stock Market, the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and any related rules and regulations. The board shall endeavor to appoint at least one member of the audit committee who shall qualify as a financial expert within the meaning of the Exchange Act.

3. Commitment to the Company. No member of the audit committee shall simultaneously serve on the audit committee of more than two other public companies unless the board shall determine that such service would not impair the ability of the director to serve effectively on the Company’s audit committee.

4. Subcommittees. To the extent permitted by law, the audit committee shall have the authority to delegate its authority to any subcommittee of the audit committee, which may consist of one or more members of the audit committee. *[Any member of the audit committee shall have the authority to pre-approve the provision of any audit service to the Company by the Company’s independent auditor, but the provision of any non-audit service to the Company by the Company’s independent auditor shall require the pre-approval of at least two members of the audit committee. If any subcommittee shall pre-approve any audit or non-audit service by the Company’s independent auditor, the subcommittee shall report such pre-approval to the audit committee at its next scheduled meeting.]*

5. Chairperson. The board of directors may appoint a chairperson of the audit committee, who shall serve at the discretion of the board. If the board shall not have appointed a chairperson, the audit committee may appoint one of its number to serve as chairperson, who shall serve at the discretion of the audit committee. The chairperson shall preside at all meetings of the audit committee and shall have such other powers and responsibilities as the board or the committee shall designate.

6. Meetings; Minutes. The audit committee shall meet as often as it determines, but not less frequently than quarterly. The audit committee shall have the authority to require any officer, employee or agent of the Company or representatives of the Company's outside counsel or independent auditor to attend any meeting or otherwise to meet with members of the committee or its agents. *[At each meeting at which representatives of the Company's independent auditor are present, the audit committee shall meet with such representatives without management present. The audit committee shall periodically meet separately with the Company's internal auditors or other persons responsible for the Company's internal audit function.]*

The audit committee is authorized to adopt its own rules of procedure, including the formalities of calling, noticing and holding meetings and for the taking of action by vote at any such meeting or by unanimous written consent of the members of the committee. Unless and until any such procedures are adopted by the audit committee, the procedures with respect to calling, noticing and holding meetings of the audit committee and conducting business of the audit committee shall be the same as those provided in the by-laws of the Company with respect to calling, noticing and holding meetings of and taking action by the board of directors.

The audit committee shall maintain written minutes of its meetings. The minutes shall be filed with the minutes of the meetings of the board of directors.

7. Delegation of Authority. By adoption of this charter, the board of directors has delegated to the audit committee all corporate authority necessary or advisable to fulfill its obligations under this charter.

8. Reports to the Board of Directors. The audit committee shall make regular reports to the board of directors regarding its activities in such manner as the chairperson or, in the absence of a chairperson, another member of the audit committee, shall deem appropriate. In particular, the audit committee shall report to the board of directors the results of its evaluation of the qualifications, performance and independence of the Company's independent auditor.

9. Compensation; Ongoing Independence. The board of directors shall determine from time to time whether the members of the audit committee shall receive special compensation for their service on the audit committee. Such compensation may take the form of cash, stock, stock options or other in-kind consideration ordinarily available to directors. To maintain the independence of the audit committee, no member of the committee shall, except to the extent permitted by the Securities and Exchange Commission (the "SEC") and the applicable rules of the Nasdaq Stock Market, (a) directly or indirectly¹ accept any consulting, advisory or other compensatory fee from the Company (including any fee paid to the director's firm for consulting or advisory services, even if the director is not the actual service provider), other than in his or her capacity as a member of the audit committee, the board of directors or any other

¹ "Indirect" acceptance of a fee includes acceptance by a spouse, minor child or child sharing a home with the director or by any entity in which the director is a partner, member or principal or occupies a similar position and which provides accounting, consulting, legal, investment banking, financial or other advisory services or any similar services to the Company.

board committee of the Company or any direct or indirect consolidated majority-controlled subsidiary or (b) be an affiliated person of the Company.

10. Authority over Independent Auditor. For purposes of this charter, the Company's "independent auditor" is the accounting firm employed by the Company for the purpose of preparing or issuing an audit report or related work.² The audit committee shall have the sole authority to retain and terminate the services of the Company's independent auditor (subject to ratification by stockholders, if required by law, in which case the audit committee shall have the sole responsibility for recommending or nominating the independent auditor to stockholders). The independent auditor shall report directly to the audit committee. The audit committee shall be directly responsible for the compensation and oversight of the work of the Company's independent auditor, including approval of all audit engagement fees and terms and the resolution of disagreements between management and the independent auditor regarding financial reporting.

(a) *Pre-approval of All Services.* The audit committee shall pre-approve all audit, review and attestation engagements (including the provision of comfort letters in connection with any securities offering, statutory audits, attest services, consents and assistance with and review of documents filed with the SEC) required under the securities laws. The audit committee shall pre-approve all permitted non-audit services provided by the Company's independent auditor; *provided, however*, that the audit committee need not pre-approve any permitted non-audit service if either (1)(A) the engagement to render the service is entered into pursuant to pre-approval policies and procedures established by the audit committee and (B) the audit committee is informed of such service in accordance with such policies and procedures, or (2) the non-audit service meets the *de minimus* exception under Section 10A(i)(1)(B) of the Exchange Act and Rule 2-01(c)(7)(ii)(C) of Regulation S-X.

(b) *Evaluation of Independent Auditor.* The audit committee shall annually review the qualifications and performance of the independent auditor, including senior members of the independent auditor's team. The audit committee shall at least annually obtain and review a report from the independent auditor describing (1) the independent auditor's internal quality-control procedures, (2) any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditor, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, regarding any independent audit carried out by the independent auditor, (3) any steps taken to address any those issues, and (4) all relationships between the independent auditor and the Company.

(c) *Evaluation of Independence.* To ensure the independence of the Company's independent auditor, the audit committee shall evaluate such independence at least annually. In conducting such evaluation, the audit committee shall consider (1) any

² If the Company employs more than one accounting firm to perform work related to the issuance of an audit report or to perform other audit, review or attestation services, the provisions of this charter relating to the appointment, compensation, retention, oversight and independence of the Company's independent auditor shall apply to each such other accounting firm.

statement of independence provided by the independent auditor, (2) whether the independent auditor provided any services beyond the audit and review of the Company's financial statements and, if so, whether those services were compatible with maintaining its independence, (3) the amount of fees paid to the independent auditor for audit and non-audit services, (4) the duration of the independent auditor's service to the Company, including the advisability of regular rotation of the Company's independent auditor, and (5) whether any partner who is a member of the audit engagement team earns or receives any compensation based on the performance of, or procuring of, engagements with the Company to provide any products or services other than audit, review and attestation services.

(d) *Rotation of Personnel.* The audit committee shall ensure that the Company's independent auditor shall rotate the partners on its audit engagement team in accordance with Section 10A(j) of the Exchange Act and Rule 2-01(c)(6) of Regulation S-X.

(e) *Conflicts of Interest.* The audit committee shall set clear policies for the hiring of current and former employees of the Company's independent auditor who participated in any capacity in the audit of the Company's financial statements. The audit committee shall discuss with the Company's independent auditor its compliance with the conflicts of interest requirements of Section 10A(l) of the Exchange Act (prohibiting the auditor, in certain circumstances, from providing any audit service to the Company if certain officers of the Company were previously employed by the auditor).

11. Annual Report to Stockholders; Other Disclosures. The audit committee shall prepare an annual report to stockholders for inclusion in the Company's proxy statement relating to the annual meeting of stockholders. The audit committee shall review all other disclosures regarding the audit committee and the performance of its duties to be included in such proxy statement or in any other document or report to be filed with the SEC, including any description of the policies and procedures adopted by the audit committee for the pre-approval of *[audit and]* non-audit services pursuant to Section 10(a) and the allocation of fees for non-audit services according to the method of approval under Section 10(a).

12. Authority to Engage Advisors. The audit committee shall have the authority to retain, at the Company's expense and without further approval from the board, independent counsel (who may be counsel to the Company), accountants and other advisors, as it determines to be necessary or appropriate to carry out its duties.

13. Review of Financial Disclosures. The audit committee shall have the responsibility to review and discuss with management and the Company's independent auditor the Company's financial statements and other financial disclosures. In particular, the audit committee shall, to the extent it deems necessary or appropriate:

(a) review and discuss with management and the Company's independent auditor:

- (1) the performance and qualifications of the Company's financial personnel;
 - (2) the responsibilities, budget and staffing of the Company's accounting and financial reporting function[, *including its internal audit function*];
 - (3) the development, selection and disclosure of any critical accounting estimates;
 - (4) the selection, application and disclosure of any critical accounting policies;
 - (5) the use and disclosure of any off-balance sheet arrangements;
 - (6) accounting considerations arising from changes in generally accepted accounting principles ("GAAP"), the Company's operations or regulatory initiatives;
 - (7) the independent auditor's judgment about the quality, not just the acceptability, of accounting principles and the clarity of the financial disclosure practices used or proposed to be used, and the degree of aggressiveness or conservatism of the Company's accounting principles and underlying estimates, and other significant decisions made in preparing the financial statements;
 - (8) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize, and report financial data and any material weaknesses in internal controls;
 - (9) the independent auditor's recommendations for improvement of the Company's internal controls and procedures for financial reporting, particularly controls designed to expose related party transactions and payments, transactions or procedures that might be deemed illegal or improper;
 - (10) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and
 - (11) significant financial or legal risk exposures and the steps management has taken to monitor and control those exposures, including the Company's guidelines and policies with respect to risk assessment and risk management.
- (b) before the filing of the audit report by the Company's independent auditor with the SEC, review and discuss any reports from the independent auditor regarding:

(1) all critical accounting policies and practices, including the reasons why policies are critical, how current and anticipated future events impact those determinations, an assessment of management's disclosures and any significant modifications proposed by the independent auditor that were not included;

(2) all alternative treatments of financial information within GAAP that have been discussed with management (as to both general accounting policies and the accounting for specific transactions), the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the Company's independent auditor, as well as the reasons for selecting the chosen accounting treatment and whether the chosen accounting treatment complies with existing corporate accounting policies and, if not, why not;

(3) other material written communications between management and the Company's independent auditor, such as any schedule of unadjusted differences, management letter, engagement letter, independence letter, management representation letter, report on observations and recommendations on internal controls, or schedule of material adjustments and reclassifications proposed (including a list of any not recorded); and

(4) illegal acts that may be required to be reported under Section 10A(b) of the Exchange Act;

(c) discuss with management and the Company's independent auditor the Company's earnings press releases, including the use of any non-GAAP financial measures, as well as financial information and earnings guidance provided to investors, analysts and ratings agencies, which discussion may be limited to the types of information to be disclosed and the type of presentation to be made rather than a discussion of specific disclosures to be made in each earnings press release;

(d) review and discuss with management and the Company's independent auditor the annual audited financial statements and quarterly financial statements, including the results of any audit or review of those financial statements and the disclosures in management's discussion and analysis of the Company's financial condition and results of operations;

(e) review the disclosure in the Company's periodic reports of the audit committee's approval of any non-audit service pursuant to Section 10A(i)(2) of the Exchange Act;

(f) review reports received from government agencies or third parties concerning legal, regulatory or other matters that might have a material effect on the financial statements or compliance policies of the Company; and

(g) review and discuss with the Company's legal counsel any legal matters that could have a significant impact on the financial statements or compliance policies of the Company.

14. Audit of Annual Financial Statements. In connection with the audit of the Company's annual financial statements, the audit committee shall:

(a) review and discuss with management and the Company's independent auditor the scope, planning and staffing of the audit engagement;

(b) discuss with the Company's independent auditor its significant findings and recommendations resulting from the audit, including any audit problems or difficulties, as well as management's response, which discussion should cover (1) any restrictions on the scope of the independent auditor's activities or access to information, (2) any disagreements with management, (3) any accounting adjustments proposed by the independent auditor and rejected by management, (4) any communications with the independent auditor's national office regarding auditing or accounting issues presented by the engagement, and (5) any management or internal control letter issued or proposed to be issued by the independent auditor to the Company;

(c) review and discuss with management and the Company's independent auditor the audited financial statements;

(d) review and discuss with the Company's independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU § 380), as may be modified or supplemented;

(e) (1) discuss with the Company's independent auditor the independent auditor's independence, (2) ensure that it receives the written disclosures and the letter from the Company's independent auditor required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as may be modified or supplemented, (3) actively engage in a dialogue with the Company's independent auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor, and (4) take, or recommend that the board of directors take, appropriate action to oversee the independence of the auditor; and

(f) based on the foregoing reviews and discussions, recommend to the board of directors whether or not to include the Company's audited financial statements in the Company's annual report on Form 10-K for filing with the SEC.

15. Approval of Related-Party Transactions. The audit committee shall have the sole authority to approve transactions that may involve actual or apparent conflicts of interest[, *as that term is defined in the Company's code of ethics*].

16. Qualified Legal Compliance Committee. [*Reserved.*]

17. Procedures for Complaints. The audit committee shall establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

18. Conduct of Investigations. The audit committee shall have the authority to conduct or authorize investigations, at the Company's expense, into any matter within the audit committee's scope of responsibility.

19. Limitation on Audit Committee Responsibility. In adopting this charter, the board of directors acknowledges that it is not the responsibility of the audit committee to prepare the Company's financial statements, plan or conduct audits of those financial statements, or determine whether those financial statements are complete and accurate and conform to GAAP and applicable rules and regulations. These tasks are the responsibility of management and the Company's independent auditor.

20. Annual Performance Evaluation. The audit committee shall at least annually evaluate its own performance. In particular, the audit committee shall review:

(a) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues regarding the adequacy of the Company's internal controls for financial reporting and any special audit steps adopted in light of material control deficiencies;

(b) analyses prepared by management and/or the Company's independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;

(c) the effect of regulatory and accounting initiatives, as well as off-balance sheet arrangements, on the Company's financial statements; and

(d) earnings press releases (paying particular attention to the use of any non-GAAP financial measures), as well as financial information and earnings guidance provided to investors, analysts and rating agencies.

21. Annual Review of Charter. The audit committee shall at least annually review and assess the adequacy of this charter and, to the extent the audit committee shall deem appropriate, recommend to the board of directors any changes that would enable the audit committee to fulfill its responsibilities more effectively.

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Approved by the board of directors on November 4, 2003.