

CSP INC /MA/
Form PRRN14A
January 25, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No. 2)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

CSP INC.

(Name of Registrant as Specified in Its Charter)

North & Webster, LLC
North & Webster Value Opportunities Fund, LP
James Bussone
J. K. Hage III
Samuel A. Kidston
Erik Thoresen

(Name of Persons(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

.. Fee paid previously with preliminary materials:

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED JANUARY 25, 2013

North & Webster, LLC
10 Tower Office Park, Ste. 419
Woburn, MA 02144

[____ _], 2013

To the Stockholders of CSP Inc.

North & Webster, LLC, North & Webster Value Opportunities Fund, LP and Samuel A. Kidston (collectively referred to as, the “North & Webster Group” “we”, “our” or “us”) are the beneficial owners of an aggregate of 133,266 shares of common stock, \$0.01 par value per share (the “Common Stock”) of CSP Inc. (the “Company”), representing approximately 3.9% of the outstanding shares of Common Stock of the Company. We have decided to withdraw our “withhold quorum” solicitation and instead to seek representation on the Board of Directors of the Company. We are seeking your support at the annual meeting of stockholders scheduled to be held on Tuesday, February 12, 2013, at 9:00 a.m. local time at the Company’s MODCOMP Inc. office located at 1500 S. Powerline Road Deerfield Beach, Florida 33442 (including any adjournments or postponements thereof and any meeting which may be called in lieu thereof, the “Annual Meeting”), for the following:

1. To consider and vote upon the election of North & Webster’s director nominees, James Bussone, J.K. Hage III, Samuel A. Kidston, and Erik Thoresen, to serve as directors of the Company until the 2014 annual meeting of stockholders and until their respective successors have been duly elected and qualified;
2. To consider an advisory vote to approve executive compensation;
3. To consider an advisory vote on the preferred frequency of holding advisory stockholder votes on the approval of executive compensation;
4. To vote on the ratification of the appointment of McGladrey & Pullen, LLP as the Company’s independent auditors for fiscal year 2013; and
5. To transact such other business, if any, as may properly come before the Annual Meeting or any adjournment or postponement thereof.

We urge you to carefully consider the information contained in the attached Proxy Statement and then support our efforts by signing, dating and returning the enclosed GOLD proxy card today. The attached Proxy Statement and the enclosed GOLD proxy card are first being furnished to the stockholders on or about _____, 2013.

If you have already voted for the incumbent management slate you have every right to change your vote by signing, dating and returning a later dated GOLD proxy card or by voting in person at the Annual Meeting.

In light of the short time period between now and the Annual Meeting, North & Webster will use its best efforts to disseminate its proxy materials to stockholders on an expedited basis via two-day express mail. North & Webster has communicated with Broadridge Financial Solutions, Inc. (“Broadridge”) to discuss the logistics involved with ensuring delivery of proxy materials to Broadridge clients such that there is sufficient time to vote on the GOLD proxy card prior to the Annual Meeting.

WE ARE NOT ASKING YOU TO VOTE ON OR APPROVE ANY OFFER TO ACQUIRE CSP AT THIS TIME. HOWEVER, WE BELIEVE VOTING FOR OUR DIRECTOR NOMINEES ON OUR GOLD PROXY CARD WILL PROVIDE STOCKHOLDERS WITH AN OPPORTUNITY TO DEMONSTRATE THAT STOCKHOLDERS SUPPORT AN IMMEDIATE SALE PROCESS DESIGNED TO MAXIMIZE STOCKHOLDER VALUE.

If you have any questions or require any assistance with your vote, please contact SCB Advising, Inc., which is assisting us, at its address and toll-free number listed on the following page.

Thank you for your support,

/s/ Samuel A. Kidston

Samuel A. Kidston
Managing Member
North & Webster, LLC

If you have any questions, require assistance in voting your GOLD proxy card, or need additional copies of North & Webster proxy solicitation materials, please call SCB ADVISING, INC. at the phone numbers listed below.

SCB ADVISING, INC.
845 3rd Avenue
6th Floor
New York, NY 10022
646 290-5243
Stockholders call TOLL FREE 877-786-3323
E-mail: sbalet@scbadvising.com

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED JANUARY 25, 2013

2013 ANNUAL MEETING OF STOCKHOLDERS
OF
CSP INC.

NORTH & WEBSTER, LLC
NORTH & WEBSTER VALUE OPPORTUNITIES FUND, LP
SAMUEL A. KIDSTON

PLEASE SIGN, DATE AND MAIL THE ENCLOSED GOLD PROXY CARD TODAY

North & Webster, LLC (“North & Webster”), North & Webster Value Opportunities Fund, LP (“N&W Value”) and Samuel A. Kidston (collectively referred to as, the “North & Webster Group” “we”, “our” or “us”) are the beneficial owners of an aggregate of 133,266 shares of common stock, \$0.01 par value per share (the “Common Stock”) of CSP Inc. (the “Company”), representing approximately 3.9% of the outstanding shares of Common Stock of the Company.

As significant stockholders, we believe now is the time for the Company to seek to maximize value for all stockholders through a bona fide sale process conducted by a reputable investment bank. On November 7, 2012, North & Webster made a bona fide offer to acquire all of the shares of common stock of CSP for \$5.50 per share in cash (the “Proposal”). At the time, our Proposal represented a 15% premium to the 60-day moving average and was higher than the stock’s 3-year high. This Proposal was designed to be the opening offer in a process that would involve (i) a reputable investment bank hired by the Board, (ii) discussions and negotiations with multiple potential purchasers and (iii) ultimately, a value maximizing transaction that would benefit all shareholders.

On November 21, 2012, we submitted a letter to the Company nominating four director candidates for election to the Company’s Board of Directors (the “Board”) at the Company’s 2013 annual meeting of stockholders (the “Annual Meeting”) to preserve our ability to present an alternative slate of director nominees at the Annual Meeting in the event the Board continued to refuse to either (i) engage in discussions with us regarding our Proposal or (ii) commence a sale process and retain a reputable investment bank. To date, the Board has neither engaged in discussions with us regarding our Proposal nor has hired a reputable investment bank to conduct a sale process for the Company.

Therefore, in light of certain operational complexities in connection with our previously announced ‘withhold quorum’ campaign and to ensure stockholders have an opportunity to vote on an alternative slate of directors at the Annual Meeting, we have decided to change course and seek the election of our four director nominees at the Annual Meeting. We are no longer pursuing the “withhold quorum” solicitation. If our four director nominees are elected, they will, subject to their fiduciary duties, seek to take the actions necessary in furtherance of retaining a reputable investment bank to conduct a sale process for the Company.

By way of this Proxy Statement and GOLD proxy card enclosed herewith, we are seeking your support at the annual meeting of stockholders scheduled to be held on Tuesday, February 12, 2013, at 9:00 a.m. local time at the Company's MODCOMP Inc. office located at 1500 S. Powerline Road Deerfield Beach, Florida 33442 (including any adjournments or postponements thereof and any meeting which may be called in lieu thereof), for the following:

1. To consider and vote upon the election of North & Webster's director nominees, James Bussone, J.K. Hage III, Samuel A. Kidston, and Erik Thoresen (each a "Nominee" and, collectively, the "Nominees"), to serve as directors of the Company until the 2014 annual meeting of stockholders and until their respective successors have been duly elected and qualified;
2. To consider an advisory vote to approve executive compensation;
3. To consider an advisory vote on the preferred frequency of holding advisory stockholder votes on the approval of executive compensation;
4. To vote on the ratification of the appointment of McGladrey & Pullen, LLP as the Company's independent auditors for fiscal year 2013; and
5. To transact such other business, if any, as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The principal executive offices of CSP are located at 43 Manning Road, Billerica, Massachusetts 01821. CSP has set the close of business on December 14, 2012 as the record date (the "Record Date") for determining the stockholders entitled to vote at the Annual Meeting. According to CSP's proxy statement, on the Record Date, there were 3,442,842 shares of CSP's common stock, par value \$0.01 per share (the "Common Stock"), outstanding, each share of Common Stock being entitled to one vote on all matters presented at the Annual Meeting. As of the date hereof, North & Webster controls 133,266 shares of Common Stock, which represents approximately 3.87% of the outstanding shares of CSP (based on the number of outstanding shares of Common Stock on the Record Date).

We intend to vote such Shares FOR the election of the Nominees, AGAINST the advisory vote to approve executive compensation, 1 YEAR on the advisory vote on the preferred frequency of holding advisory stockholder votes on the approval of executive compensation, and AGAINST the ratification of the appointment of McGladrey & Pullen, LLP as the Company's independent auditors for fiscal year 2013.

THIS SOLICITATION IS BEING MADE BY NORTH & WEBSTER AND NOT ON BEHALF OF THE BOARD OF DIRECTORS OR MANAGEMENT OF THE COMPANY. WE ARE NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING OTHER THAN AS SET FORTH IN THIS PROXY STATEMENT. SHOULD OTHER MATTERS, WHICH NORTH & WEBSTER IS NOT AWARE OF A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING, THE PERSONS NAMED AS PROXIES IN THE ENCLOSED GOLD PROXY CARD WILL VOTE ON SUCH MATTERS IN THEIR DISCRETION.

NORTH & WEBSTER URGES YOU TO SIGN, DATE AND RETURN THE GOLD PROXY CARD IN FAVOR OF THE ELECTION OF THE NOMINEES AND IN ACCORDANCE WITH NORTH & WEBSTER'S RECOMMENDATIONS ON THE OTHER PROPOSALS ON THE AGENDA FOR THE ANNUAL MEETING.

IN LIGHT OF THE SHORT TIME PERIOD BETWEEN NOW AND THE ANNUAL MEETING, NORTH & WEBSTER WILL USE ITS BEST EFFORTS TO DISSEMINATE ITS PROXY MATERIALS TO STOCKHOLDERS ON AN EXPEDITED BASIS VIA TWO-DAY EXPRESS MAIL. NORTH & WEBSTER HAS COMMUNICATED WITH BROADRIDGE FINANCIAL SOLUTIONS, INC. TO DISCUSS THE LOGISTICS INVOLVED WITH ENSURING DELIVERY OF PROXY MATERIALS TO BROADRIDGE CLIENTS SUCH THAT THERE IS SUFFICIENT TIME TO VOTE ON THE GOLD PROXY CARD PRIOR TO THE ANNUAL MEETING.

IF YOU HAVE ALREADY SENT A PROXY CARD FURNISHED BY COMPANY MANAGEMENT OR THE BOARD, YOU MAY REVOKE THAT PROXY AND VOTE FOR EACH OF THE PROPOSALS DESCRIBED IN THIS PROXY STATEMENT BY SIGNING, DATING AND RETURNING THE ENCLOSED GOLD PROXY CARD. THE LATEST DATED PROXY IS THE ONLY ONE THAT COUNTS. ANY PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE ANNUAL MEETING BY DELIVERING A WRITTEN NOTICE OF REVOCATION OR A LATER DATED PROXY FOR THE ANNUAL MEETING OR BY VOTING IN PERSON AT THE ANNUAL MEETING.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting—This Proxy Statement and our GOLD proxy card are available at
http://www._____.com

IMPORTANT

Your vote is important, no matter how few Shares you own. North & Webster urges you to sign, date, and return the enclosed GOLD proxy card today to vote FOR the election of the Nominees and in accordance with North & Webster's recommendations on the other proposals on the agenda for the Annual Meeting.

- If your Shares are registered in your own name, please sign and date the enclosed GOLD proxy card and return it to North & Webster, c/o SCB Advising, Inc. ("SCB Advising") in the enclosed postage-paid envelope today.
- If your Shares are held in a brokerage account or bank, you are considered the beneficial owner of the Shares, and these proxy materials, together with a GOLD voting form, are being forwarded to you by your broker or bank. As a beneficial owner, you must instruct your broker, trustee or other representative how to vote. Your broker cannot vote your Shares on your behalf without your instructions.
- Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed voting form.

Since only your latest dated proxy card will count, we urge you not to return any proxy card you receive from the Company. Even if you return the management proxy card marked "withhold" as a protest against the incumbent directors, it will revoke any proxy card you may have previously sent to us. Remember, you can vote for our three independent Nominees only on our GOLD proxy card. So please make certain that the latest dated proxy card you return is the GOLD proxy card.

SCB ADVISING, INC.
845 3rd Avenue
6th Floor
New York, NY 10022
646 290-5243
Stockholders call TOLL FREE 877-786-3323
E-mail: sbalet@scbadvising.com

BACKGROUND TO THE SOLICITATION

The following is a chronology of events leading up to this proxy solicitation.

August 30, 2012 – North & Webster began to purchase common stock, par value \$0.01, of CSP in open market purchases.

November 7, 2012 – We sent a letter to the Board setting forth our offer to acquire the Company for \$5.50 per share in cash, with the price representing a 15% premium to the 60-day moving average and in excess of the stock's 3-year high. We proposed to close the transaction prior to the end of calendar year 2012 to maximize value for all shareholders and take advantage of favorable tax treatment for all shareholders.

November 9, 2012 – We received a vague one-paragraph letter from the Board leaving open if and when the Board would discuss our transaction proposal.

November 14, 2012 – We followed up with a letter specifying a detailed term sheet and transaction time line that proposed a plan to negotiate a transaction prior to the nomination deadline for the Annual Meeting.

November 21, 2012 – After no response from the Company and in order to preserve our rights as shareholders, we nominated a slate of four director candidates stating we would not run against new CEO Victor Dellovo. We stated that our goal is to engage in a constructive dialogue on a sale process and if the Board continued to ignore our offer than our slate of director candidates would be a referendum on a sale process to the highest bidder regardless of whether that is our offer, or a higher bid from a third party.

December 18, 2012 – After publicly stating on an earnings conference call that the Company would likely return to losing money in 2013, we sent a letter that stated we remained interested in privately negotiating a transaction and that this would be our final private communication.

January 9, 2013 – We sent a letter to the Board and issued a press release. In the letter to the Board, among other things, we informed the Board we would be soliciting our fellow stockholders to withhold their votes in order to prevent a quorum at the 2013 Annual Meeting, expressed our serious concerns regarding the Board's disclosure of certain information in its preliminary proxy statement regarding us and our intentions with respect to the Company and expressed our disappointment in the Board's refusal to engage in discussions with us regarding our Proposal and request that the Company retain a reputable investment bank to conduct an open and transparent sale process for the Company. In the press release, we announced, among other things, that we would be seeking stockholder support to prevent a quorum from existing at the Annual Meeting to demonstrate disapproval of the Board's actions and as a referendum to demonstrate stockholders prefer the Company to immediately commence a sale process designed to maximize stockholder value than the status quo.

January 9, 2013 – We filed preliminary proxy materials with the SEC in furtherance of a 'withhold quorum' campaign in connection with the Annual Meeting. Such a campaign would involve soliciting stockholders' authority to withhold their respective vote from being present and counted for purposes of a quorum at the Annual Meeting. We stated that this 'withhold quorum' campaign would serve as a referendum for stockholders to demonstrate that they prefer the Company to immediately commence a strategic process designed to maximize the value of their investment than the status quo.

January 9, 2013 – North & Webster submitted a letter to the Company demanding to inspect and make copies of the Company's stockholder list and other materials in accordance and compliance with Section 16.02 of the Massachusetts Business Corporation Act. On January 23, 2013, the Company provided the requested materials following entry by the parties into a mutually satisfactory confidentiality agreement.

January 25, 2013 – North & Webster ceased its 'withhold quorum' solicitation efforts and filed preliminary proxy materials with the SEC in furtherance of seeking to elect its four Nominees.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Board is currently composed of five directors whose terms expire at the Annual Meeting. We are seeking your support at the Annual Meeting to elect our four Nominees, James Bussone, J.K. Hage III, Samuel A. Kidston, and Erik Thoresen. If elected, the Nominees will represent a majority of the members of the Board. If elected, it cannot be guaranteed that the Nominees will conduct a sale process or have the ability to enhance stockholder value.

THE NOMINEES

The following information sets forth the name, age, business address, present principal occupation, and employment and material occupations, positions, offices, or employments for the past five years of each of the Nominees. The nominations were made in a timely manner and in compliance with the applicable provisions of the Company's governing instruments. The specific experience, qualifications, attributes and skills that led us to conclude that the Nominees should serve as directors of the Company is set forth above in the section entitled "Reasons for the Solicitation." This information has been furnished to us by the Nominees. The Nominees are citizens of the United States of America.

James Bussone, age 49, has been a Member and Senior Analyst at North & Webster, LLC since 2005. Prior to his employment at North & Webster, LLC, Mr. Bussone was a senior equity analyst at Delphi Management, a nationally renowned investment boutique from 2000 to 2005. Mr. Bussone currently serves as a Director on the Board of Directors of Ezenia! Inc. (Pink Sheets: EZEN). Prior to Delphi Management, Mr. Bussone held financial, analytical and operational positions at various publicly listed companies, including Bank of New England, Boston Gas Company, and Eaton Semiconductor Equipment Corp. Mr. Bussone graduated Cum Laude from Salem State College with a Bachelor of Science in Business Administration, Finance and is an associate member of the Boston Security Analysts Society. Mr. Bussone's principal business address is 10 Tower Office Park, Ste. 419 Woburn, MA 01801. Mr. Bussone's significant financial expertise and board experience will enable him to contribute positively to the Board.

J.K. Hage III, age 62, is the Managing Member of the law firm of Hage & Hage LLC, where he has practiced law since 1978. Mr. Hage advises public and private utility, energy, communications, business and technology clients, and others, in the areas of business organizations, new ventures, strategic planning, capital formation, information security, sustainability, mergers and acquisitions, negotiation of transactions, succession and estate planning. Mr. Hage is of counsel to Lukas, Nace, Guitierrez and Sachs, a Washington, D.C. communications law and engineering firm. Mr. Hage has initiated numerous business ventures including Independent Wireless One Corporation (aka U.S. Unwired), a national Sprint PCS affiliate. Mr. Hage was the organizer and the first Executive Director of the Griffiss Institute, a market driven national collaboration of industry, the academy and government dedicated to applied research, training, and services in information security. From November 2004 to May 2006, Mr. Hage served as General Counsel, and as first Executive Director, to the Griffiss Institute from February 2003 to November 2004. Mr. Hage, his family and their family charitable foundation are active in numerous civic, arts and other charitable organizations. Mr. Hage earned a B.A. from Hamilton College and a J.D. from Albany Law School and is admitted to both the New York and the Alaska Bars. Mr. Hage studied and lived for a number of years in Latin America (Peru, Mexico), in England (Oxford University), in Spain (University of Madrid), and in New York City (New York University, Ph.D ABD in Spanish). Mr. Hage's principal business address is the Hage Building, 283 Genesee Street, Utica, NY 13501. Mr. Hage's extensive business experience in the private and public equity markets and communications field will enable him to provide effective and beneficial counsel to the Board.

Samuel A. Kidston, age 37, is the founder and Chief Investment Officer of North & Webster, LLC, an investment management and advisory firm that serves as the General Partner of N&W Value. Mr. Kidston has been a director of SED International Holdings, Inc. (“SED”), a Georgia company (NYSE: SECX), since January 2009. In December 2009, Mr. Kidston was elected Chairman of the Board of Directors of SED and Executive Chairman in August 2012. Mr. Kidston is the Chairman of the Board of Directors and Chief Executive Officer of Sport-Haley Holdings, Inc. (Pink Sheets: SPOR), and has served as the non-executive Chairman of the Board of Directors of Ezenia! Inc. (Pink Sheets: EZEN) since 2011. Prior to founding North & Webster, LLC, Mr. Kidston served as an equity analyst for the small and mid-cap equity team at BlackRock, Inc. (“BlackRock”), from December 2001 to March 2006, specializing in analyzing and investing in financial services and energy companies. During his tenure at BlackRock the small and mid-cap equity assets grew from less than \$1 billion under management to in excess of \$6 billion. Mr. Kidston is a member of the Boston Security Analyst Society. Mr. Kidston earned a B.A. from Wesleyan University and received his Charter as an Investment Analyst from the CFA Institute. Mr. Kidston’s principal business address is 10 Tower Office Park, Suite 420 Woburn, MA 01801. Mr. Kidston’s significant board experience, coupled with his extensive financial expertise make him an excellent candidate for the Board of Directors of the Company.

Erik Thoresen, CFA, age 40, is the managing member of Calaveras Capital, LLC and FT Specialty Finance, LLC, positions he has held since 2010 and 2009 respectively. Mr. Thoresen specializes in mergers and acquisitions, strategic advisory services, and special situation investing. Mr. Thoresen has been a director of Sport-Haley Holdings, Inc. (Pink Sheets: SPOR) since 2010. Mr. Thoresen has nearly 20 years of global investing and transactional experience. Prior to founding Calaveras Capital, LLC and FT Specialty Finance, LLC, Mr. Thoresen was a Vice President and Director of Strategy and Planning at BNY Mellon. Mr. Thoresen graduated with a BA in International Relations from Syracuse University, and earned his MBA from the University of Virginia. Mr. Thoresen holds the Chartered Financial Analyst designation, and is a member of the Boston Security Analyst Society and the National Association of Corporate Directors. Mr. Thoresen’s principal business address is 8 Kenway St. Cambridge, MA 02138. As a Board member, Mr. Thoresen's significant expertise in mergers and acquisitions, extensive involvement with capital markets transactions, investments and turnaround situations would bring valuable expertise to the Company’s Board.

Neither Mr. Hage nor Mr. Thoresen owns any shares of Common Stock. Mr. Bussone, by virtue of his position with North & Webster, may be deemed to beneficially own the shares owned by N&W Value. Mr. Kidston does not directly own any shares of Common Stock. As Managing Member of North & Webster, Mr. Kidston is deemed to beneficially own the shares of Common Stock beneficially owned in the aggregate by N&W Value, North & Webster and certain other managed accounts over which North & Webster have voting and dispositive control.

N&W Value and each of the Nominees (collectively, the “Group”) may be deemed to be members of a “group” for the purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and accordingly may be deemed to beneficially own the shares of Common Stock owned directly by the other members of the group. Each member of the Group disclaims beneficial ownership of such shares of Common Stock, except to the extent of his or its pecuniary interest therein. For information regarding purchases and sales of securities of the Company during the past two years by N&W Value and each member of the Group, please see Schedule I.

Other than as stated herein, there are no arrangements or understandings between N&W Value and each Nominee or any other person or persons pursuant to which the nominations described herein are to be made. Messrs. Bussone and Kidston are compensated as employees of North & Webster.

Each Nominee presently is, and if elected as a director of the Company, each of the Nominees would be, an “independent director” within the meaning of (i) applicable NASDAQ listing standards applicable to board composition, including Rule 5605(a)(2), and (ii) Section 301 of the Sarbanes-Oxley Act of 2002. No Nominee is a member of the Company’s compensation, nominating or audit committee that is not independent under any such committee’s applicable independence standards.

If North & Webster is successful in electing the Nominees at the Annual Meeting, then a change in control of the Board will be deemed to have occurred. According to the Company’s proxy statement, Victor Dellovo and Gary Levine have “single-trigger” change of control agreements with the Company executed in September 2012 and January 2008, respectively.

In case of a change in control of the Board (as defined, and including a change in the majority of the incumbent directors over a two-year period, except for new directors nominated or selected by a majority of the then incumbent board), Messrs. Dellovo and Levine will be entitled to:

- a multiple of his base compensation for the Company’s fiscal year then in effect or, if greater, a multiple of his base compensation for the Company’s previous fiscal year, plus
- a multiple of his annual target variable compensation bonus for the fiscal year then in effect or, if there is no bonus plan in effect that year, the highest variable compensation bonus paid to the executive in any of the three preceding fiscal years.

For Mr. Dellovo, the payouts are two times base compensation and bonus (with the target compensation equal to 50% of annual base pay). For Mr. Levine, the payouts are one times base compensation and bonus (with the target compensation equal to 30% of annual base pay).

Following a change in control, Mr. Dellovo and Mr. Levine would be entitled to two years and one year, respectively, of comparable health and welfare benefits, by continuing the executive in the Company's health and welfare plans, or by payment by the Company of amounts sufficient to purchase equivalent coverage in a lump sum or periodically. The executive's stock options and restricted stock awards would vest, and the executive would be entitled to exercise stock options and satisfy any tax withholding obligations under restricted stock awards by delivering shares of our common stock to the Company, or having shares of common stock withheld by the Company, in each case at the fair market value of the common stock and sufficient to meet the relevant requirement. In case of voluntary resignation or termination of employment for cause or by reason of death or disability, then no severance payments would be payable to the executive.

Other than the change in control implications described above, North & Webster is not aware of any other implications for the Company relating to a change in control of the Board pursuant to the election of the Nominees.

YOU ARE URGED TO VOTE FOR THE ELECTION OF THE NOMINEES ON THE ENCLOSED GOLD PROXY CARD.

PROPOSAL NO. 2

ADVISORY VOTE ON EXECUTIVE COMPENSATION

As discussed in further detail in the Company's proxy statement, the Company is asking stockholders to indicate their support for the compensation of the Company's named executive officers. This proposal, commonly known as a "say-on-pay" proposal, is not intended to address any specific item of compensation, but rather the overall compensation of the Company's named executive officers as described in the Company's proxy statement. Accordingly, the Company is asking stockholders to vote for the following resolution:

"RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed in this proxy statement pursuant to Item 402 of Regulation S-K, including the compensation tables and narrative discussion, is hereby APPROVED."

According to the Company's proxy statement, the say-on-pay vote is advisory only and not binding on the Company, the Compensation Committee of the Board, or the Board.

WE INTEND TO VOTE OUR SHARES "AGAINST" THIS PROPOSAL

PROPOSAL NO. 3:

ADVISORY VOTE ON THE FREQUENCY OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION

As discussed in further detail in the Company's proxy statement, the Company is asking stockholders to indicate how frequently it should seek an advisory vote on the compensation of the Company's named executive officers, as disclosed pursuant to the SEC's compensation disclosure rules. By voting on this Proposal No. 3, stockholders may indicate whether they prefer an advisory vote on named executive officer compensation once every one, two, or three years, or stockholders may choose to abstain from voting on this issue. Accordingly, the Company is asking stockholders to vote for the following resolution:

"RESOLVED, that the option of one year, two years or three years that receives the highest number of votes cast for this resolution be approved, on an advisory basis, as the preferred frequency with which CSPI holds advisory stockholder votes to approve the compensation of its named executive officers, as disclosed in the proxy statement filed in connection with its Annual Meeting of stockholders or any special meeting in lieu thereof pursuant to Item 402 of Regulation S-K."

The Board of Directors has recommended a vote for the option of once every three years as the frequency with which stockholders are provided an advisory vote on executive compensation.

WITH RESPECT TO FREQUENCY OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION, WE RECOMMEND AND INTEND TO VOTE FOR A VOTE TO BE HELD WITH RESPECT TO THE FREQUENCY OF AN ADVISORY VOTE ON EXECUTIVE COMPENSATION EVERY ONE YEAR

PROPOSAL NO. 4:

RATIFICATION OF THE APPOINTMENT OF THE COMPANY'S INDEPENDENT
AUDITORS

As discussed in further detail in the Company's proxy statement, the Audit Committee of the Board has selected McGladrey & Pullen, LLP to serve as the Company's independent registered public accounting firm for the 2013 fiscal year and is proposing that stockholders ratify such appointment. The Company is submitting the appointment of McGladrey & Pullen, LLP for ratification of the stockholders at the Annual Meeting.

WE RECOMMEND A VOTE "AGAINST" THE RATIFICATION OF THE APPOINTMENT OF MCGLADREY & PULLEN, LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE 2013 FISCAL YEAR AND INTEND TO VOTE OUR SHARES "AGAINST" THIS PROPOSAL.

VOTING AND PROXY PROCEDURES

Only stockholders of record on the Record Date will be entitled to notice of and to vote at the Annual Meeting. Each share of Common Stock is entitled to one vote. Stockholders who sell shares of Common Stock before the Record Date (or acquire them without voting rights after the Record Date) may not vote such shares of Common Stock. Stockholders of record on the Record Date will retain their voting rights in connection with the Annual Meeting even if they sell such shares of Common Stock after the Record Date. Based on publicly available information, we believe that the only outstanding class of securities of the Company entitled to vote at the Annual Meeting is the Common Stock.

Shares represented by properly executed GOLD proxy cards will be voted at the Annual Meeting as marked and, in the absence of specific instructions, will be voted FOR the election of the Nominees to the Board, AGAINST the advisory vote to approve executive compensation, 1 YEAR on the advisory vote on the preferred frequency of holding advisory stockholder votes on the approval of executive compensation, AGAINST the ratification of the appointment of McGladrey & Pullen, LLP as the Company's independent auditors for fiscal year 201, and in the discretion of the persons named as proxies on all other matters as may properly come before the Annual Meeting.

According to the Company's proxy statement for the Annual Meeting, the current Board intends to nominate five (5) candidates for election at the Annual Meeting. This Proxy Statement is soliciting proxies to elect only our Nominees. Accordingly, the enclosed GOLD proxy card may only be voted for our Nominees and does not confer voting power with respect to the Company's nominees. The participants in this solicitation intend to vote all of their Shares in favor of the Nominees. Stockholders should understand that by voting on the GOLD proxy card, they will be effectively disenfranchised with respect to the election of one director since North & Webster is only nominating four directors. In the event that the North & Webster Nominees are elected, there can be no assurance that the Company nominee who gets the most votes and elected to the Board will choose to serve as a director on the Board with the Nominees.

QUORUM; DISCRETIONARY VOTING

The presence, in person or by proxy, of the holders of a majority of the issued and outstanding shares of Common Stock as of the Record Date constitutes a quorum. Shares present in person or by proxy will be counted for the purpose of determining whether a quorum is present at the Annual Meeting. Abstentions are counted as present and entitled to vote for purposes of determining a quorum. Shares of Common Stock represented by "broker non-votes" also are counted as present and entitled to vote for purposes of determining a quorum. However, if you hold your shares in street name and do not provide voting instructions to your broker, your shares will not be voted on any proposal on which your broker does not have discretionary authority to vote (a "broker non-vote"). Under current NYSE rules, your broker will not have discretionary authority to vote your shares at the Annual Meeting on any of the proposals to be voted on at the Annual Meeting.

VOTES REQUIRED FOR APPROVAL

Vote required for the election of directors. Directors will be elected at the Annual Meeting by a plurality of the votes cast. Therefore, the five nominees receiving the highest number of votes will be elected. Abstentions will have no effect on the election of directors.

Vote required to approve the advisory vote on the compensation paid to the Company's named executive officers (the "say-on-pay proposal"). According to the Company's proxy statement, approval of the say-on-pay proposal requires the affirmative vote of a majority of the shares represented and entitled to vote at the Annual Meeting. You may cast a vote either "FOR" or "AGAINST" the say-on-pay proposal, or you may abstain. A vote to absta