

CSP INC /MA/  
Form 8-K  
January 06, 2012

UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 8-K**

Current Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 6, 2012

**CSP Incorporated**

(Exact name of the registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of incorporation)

**000-10843**

**04-2441294**

(Commission File Number) (IRS Employer Identification No.)

**43 Manning Road, Billerica, Massachusetts**

**01821-3901**

(Address of principal executive offices)

(Zip Code)

**(978) 663-7598**

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act

(17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act

(17 CFR 240.13e-4(c))

**ITEM 4.02. Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.**

(a) On January 4, 2012, our management recommended to the Audit Committee of the Board of Directors (the "Audit Committee"), and the Audit Committee approved the recommendation, that our audited financial statements for the fiscal year ended September 30, 2010 and the unaudited financial statements and financial information for the quarterly periods ended December 31, 2010, March 31, 2011, and June 30, 2011 (the "Relevant Periods") be restated as a result of the re-evaluation of certain technical accounting guidance affecting the classification of revenues and costs of revenues and the classification of deferred revenues and costs of revenues as current versus non-current (the "change in accounting policy").

Because of the change in accounting policy, our previously issued financial statements included in (i) our Annual Report on Form 10-K for the year ended September 30, 2010, together with the related report of our independent registered public accounting firm, McGladrey & Pullen LLP, and (ii) our Quarterly Reports on Form 10-Q filed with respect to the periods ended December 31, 2010, March 31, 2011 and June 30, 2011, should no longer be relied upon.

The restatements of the financial statements referred to above resulted from the identification of products that are maintenance and support services provided by third parties where the Company is not the primary obligor for the service, which requires presentation of the revenue reported by the Company net of the cost of the services as opposed to recognition as the gross sales value of the services. In addition, the Company identified certain other services provided by third party contracts for which the Company is primary obligor and reported these services correctly at

the gross sales value, however these services were reported as product revenue and should've been included as service revenue.

The adjustments made to the restated financial statements referred to above did not have an impact to earnings before taxes, net income, total cash flow, total assets, total liabilities, retained earnings or total shareholder equity

On January 4, 2012, our Audit Committee and management reviewed and discussed the change in accounting policy, which required entries in the Relevant Periods to correct the revenue and cost of sales and the reclassifications of the deferred revenue and related deferred cost of revenue described above. Representatives of our independent registered public accounting firm, McGladrey & Pullen LLP, attended the meeting and discussed the matters disclosed in this Current Report on Form 8-K with the Audit Committee.

Accordingly, we will file an amendment to the Forms 10-Q for the Relevant Periods and an amendment to the Form 10-K for the fiscal year ended September 30, 2010 with the Securities and Exchange Commission in order to reflect the adjustment to the revenue and cost of sales and reclassification of the deferred revenue and related deferred cost of revenue for the change in our accounting policy.

After reviewing the circumstances leading up to the restatement, we and the Audit Committee believe that the errors were inadvertent and unintentional. We have determined that a material weakness exists in internal control over financial reporting with respect to recording revenue for third party maintenance contracts where the Company is not the primary obligor.

In connection with the efforts which we undertook to perform the restatement, we determined that we did not sufficiently assess and apply certain aspects of ASC 605-45 Principal Agent Considerations to the particular facts and circumstances of many of our revenue arrangements. Accordingly, we have determined that this failure to accurately assess an accounting principal amounts to a material weakness in our controls over financial reporting. As a result of this material weakness, we have concluded that the Company's internal control over financial reporting was not effective as of September 30, 2011.

Management is in the process of assessing various alternatives it may deploy to modify our existing internal control processes and systems to remediate this material weakness. Currently, we have devised a method whereby we are able to utilize data-mining techniques to identify the applicable transactions, and then apply the appropriate accounting treatment to them. We have incorporated this process into our existing internal control structure to insure that we apply the appropriate accounting for these transactions beginning in the quarter ended December 31, 2011 (the first fiscal quarter of fiscal year 2012).