

QUALSTAR CORP  
Form 10-K/A  
October 28, 2010

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934

FOR THE FISCAL YEAR ENDED JUNE 30, 2010

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 000-30083

QUALSTAR CORPORATION

CALIFORNIA  
(State of Incorporation)

95-3927330  
(I.R.S. Employer ID No.)

3990-B HERITAGE OAK COURT, SIMI VALLEY, CA 93063  
(805) 583-7744

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class: | Name of Each Exchange on Which Registered: |
|----------------------|--|
| Common Stock         | The NASDAQ Stock Market LLC                |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes  No  T

Indicate by check mark whether the registrant is not required to file reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No  T

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes  T No  ..

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Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes  No

As of December 31, 2009, (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the common equity held by non-affiliates of the registrant was approximately \$15,384,000 based on the closing sales price as reported on the NASDAQ Stock Market. As of September 23, 2010, there were 12,253,117 shares of common stock without par value outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

A list of our executive officers and biographical information appears in Part I, Item 1 of this report under the caption “Executive Officers of the Registrant.” The current members of our Board of Directors and biographical information is set forth below:

| Name               | Age | Position   |
|--------------------|-----|--|
| William J. Gervais | 67  | Chief Executive Officer, President and Director      |
| Richard A. Nelson  | 67  | Vice President — Engineering, Secretary and Director |
| Stanley W. Corker  | 59  | Director   |
| Carl W. Gromada    | 69  | Director   |
| Robert A. Meyer    | 65  | Director   |
| Robert E. Rich     | 60  | Director   |

William J. Gervais is a founder of Qualstar and has been our President and a director since our inception in 1984, and was elected Chief Executive Officer in January 2000. From 1984 until January 2000, Mr. Gervais also served as our Chief Financial Officer. From 1981 until 1984, Mr. Gervais was President of Northridge Design Associates, Inc., an engineering consulting firm. Mr. Gervais was a co-founder, and served as Engineering Manager from 1976 until 1981, of Micropolis Corporation. Mr. Gervais earned a B.S. degree in Mechanical Engineering from California State Polytechnic University, Pomona in 1967.

Richard A. Nelson is a founder of Qualstar and has been our Vice President of Engineering, Secretary and a director since our inception in 1984. From 1974 to 1984, Mr. Nelson was self-employed as an engineering consultant specializing in microprocessor technology. Mr. Nelson earned a B.S. in Electronic Engineering from California State Polytechnic University, Pomona in 1966.

Stanley W. Corker has served as a director of Qualstar since January 26, 2006. Since 1996, Mr. Corker has been the Director of Technology Research and a partner of Emerald Asset Management, a diversified investment management firm. Prior to joining Emerald Asset Management, Mr. Corker obtained over 20 years experience in the computer storage industry from key roles in engineering and marketing at several manufacturers of tape drives, and as an industry analyst with International Data Corporation (IDC). Mr. Corker received a B.S. degree in Computer Science from the University of Essex, England in 1972, where he later conducted five years of postgraduate research in computer networking systems.

Carl W. Gromada has served as a director of Qualstar since March 2005. From 2000 to the present, Mr. Gromada has been a consultant and a private investor. From 1996 to 2000, Mr. Gromada served as Chief Executive Officer, and a member of the board of directors of Computer Resources Unlimited, Inc., a company involved in the design, manufacture and sale of a broad line of products for the computer storage industry. Mr. Gromada received a B.S. degree in Business Administration from Temple University in 1965.

Robert A. Meyer has served as a director of Qualstar since March 16, 2006. Mr. Meyer is currently retired. From 1994 until June 2005, Mr. Meyer was employed in various management positions by United States Filter Corporation, a company engaged in the water treatment industry serving industrial, commercial and residential customers. His positions at United States Filter Corporation included Director of Finance, Business Development from 2000 to 2002, and Vice President of Internal Audit from 2003 until he retired in June 2005. Mr. Meyer received a B.S. degree in Accounting from C.W. Post College in 1972, and he is a Certified Public Accountant.

Robert E. Rich has served as a director of Qualstar since January 2000. Mr. Rich has been engaged in the private practice of law since 1975 and has been a shareholder of Stradling Yocca Carlson & Rauth, legal counsel to Qualstar, since 1984. Mr. Rich received a B.A. degree in Economics from the University of California, Los Angeles in 1972 and his J.D. degree from the University of California, Los Angeles in 1975.

Directors are elected annually and hold office until the next annual meeting of shareholders and until their successors have been elected and qualified.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Qualstar's directors and executive officers, and persons who own more than ten percent of Qualstar's common stock, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish Qualstar with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of Section 16(a) reports furnished to us and written representations that no other reports were required during the fiscal year ended June 30, 2010, our officers, directors and greater than ten percent beneficial owners complied with all Section 16(a) filing requirements except as follows: Richard A. Nelson sold shares of our common stock on December 28 and 29, 2009 pursuant to a 10b5-1 trading plan. These sales were reported on a Form 4 that was filed on January 4, 2010.

## Code of Ethics

Qualstar has adopted a written Code of Business Conduct and Ethics, which complies with the requirements for a code of ethics pursuant to Item 406(b) of Regulation S-K under the Securities Exchange Act of 1934, that applies to our chief executive officer, chief financial officer and persons performing similar functions. A copy of the Code of Business Conduct and Ethics has been filed as an exhibit to this report. A copy of the Code of Business Conduct and Ethics is also posted on our website at [www.qualstar.com](http://www.qualstar.com). A copy of the Code of Business Conduct and Ethics will be provided, without charge, to any shareholder who sends a written request to the Chief Financial Officer of Qualstar at 3990-B Heritage Oak Court, Simi Valley, California 93063.

## Audit Committee

Our Board of Directors has a standing Audit Committee, which is comprised solely of non-employee directors who satisfy current Nasdaq standards with respect to independence, financial expertise and experience. The current members of the Audit Committee are Stanley W. Corker, Carl W. Gromada and Robert A. Meyer, with Mr. Gromada serving as Chairman. Our Board of Directors has determined that both Mr. Gromada and Mr. Meyer meet the Securities and Exchange Commission's definition of "audit committee financial expert."

## ITEM 11. EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

This section contains a discussion of the material elements of compensation awarded to, earned by, or paid to our principal executive officer, our principal financial officer, and our other executive officers who were serving as executive officers of Qualstar at June 30, 2010. These individuals are identified in the Summary Compensation Table and other compensation tables that follow this section, and are referred to throughout this report as our "named executive officers."

#### Executive Compensation Program Objectives

Our executive compensation program is intended to fulfill three primary objectives: first, to attract and retain qualified executives required for the success of our business; second, to reward these executives for financial and operating performance; and third, to align their interests with those of our stockholders to create long-term stockholder value. The principal elements of the compensation program for our named executives include base salary, cash bonus, and long-term incentives in the form of stock options.

#### Executive Officer Compensation Elements

##### Base Salaries

Our Board of Directors, upon the recommendation of the Compensation Committee, establishes base salaries for our executive officers. The Compensation Committee considers compensation paid by companies comparable in size to Qualstar, the experience level and past performance of the individual executives, as well as the revenues and profitability of Qualstar. Our goal is to provide base salaries that are fair and competitive, but not excessive.

The table below shows the base salary established for each of our named executive officers for fiscal years 2010 and 2009, and the percentage change compared to the prior fiscal year. Salary adjustments typically do not coincide with the beginning of the fiscal year, so the amounts shown below may not be exactly the same as those shown in the Fiscal 2010 Summary Compensation Table.



| Name and Principal Position                                     | Fiscal 2010<br>Base Salary | Percent<br>Change<br>versus<br>Fiscal |  | Fiscal 2011<br>Base Salary | Percent<br>Change<br>versus<br>Fiscal<br>2010<br>Base<br>Salary |
|---|----------------------------|---------------------------------------|--|----------------------------|---|
|   |                            | 2009 Base<br>Salary                   |  |                            |   |
| William J. Gervais<br>Chief Executive Officer and President     | \$157,500(1)               | (10.0 %)                              |  | \$157,500                  |   |
| Nidhi H. Andalon<br>Vice President and Chief Financial Officer  | \$150,000                  | 7.1 %                                 |  | \$150,000                  |   |
| Randy Johnson<br>Vice President and General Manager,<br>N2Power | \$180,000                  |                                       |  | \$180,000                  |   |
| Richard A. Nelson<br>Vice President of Engineering              | \$153,000(1)               | (10.0 %)                              |  | \$153,000                  |   |
| Robert K. Covey<br>Vice President of Marketing                  | \$165,600(1)               | (10.0 %)                              |  | \$165,600                  |   |

(1) As a cost-saving measure, the base salaries of Mr. Gervais, Mr. Nelson and Mr. Covey were reduced by 10% for an indefinite period, effective as of July 2009.

#### Cash Bonuses

Historically, each year the Board of Directors, upon the recommendation of the Compensation Committee, has established a cash bonus plan for executive officers based on Qualstar achieving stated levels of consolidated revenue and pre-tax profits for the fiscal year, excluding the effects of acquisitions, if any, made during the fiscal year. However, in recent years Qualstar has not achieved the levels of revenues or pre-tax profits required to earn even the minimum bonus amounts under prior bonus plans. Consequently, the Board of Directors did not establish a bonus plan for executive officers for fiscal 2010, and has not established a bonus plan for executive officers for fiscal 2011, with the exception of Randy Johnson. Mr. Johnson was first appointed an executive officer by our Board on March 25, 2010. His incentive compensation plan, which was established before Mr. Johnson became an executive officer and has not been modified, provides that he can earn a cash bonus based on the level of pre-tax profits achieved by our N2Power business unit for the fiscal year. Mr. Johnson's potential bonus ranges from 0% of his base pay if N2Power is unprofitable, up to a maximum amount equal to 15% of his base pay if N2Power achieves pre-tax profits equal to more than 19% of N2Power sales. For the fiscal year ended June 30, 2010, Mr. Johnson earned a bonus of \$3,600, which is equal to 2% of his base pay.

Our Board of Directors reserves the right to pay discretionary cash bonuses, if deemed appropriate.

#### Equity-Based Compensation

We use stock option grants as a form of long-term compensation. For the past several years, however, our stock generally has not been actively traded and the price per share has declined or stayed within a relatively narrow range. Consequently, stock options have not provided significant compensation in recent years. We did not grant any stock options to our executive officers in fiscal 2010.

Our 2008 Stock Incentive Plan authorizes us to grant stock options to purchase, in the aggregate, up to 500,000 shares of our common stock. This plan was adopted by our Board of Directors in November 2008 and approved by our



shareholders in March 2009, and replaces our 1998 Stock Incentive Plan, which expired in 2008. Under both plans, the exercise price of stock options must be no less than the closing price of our common stock on the date of grant. It is our policy to grant stock options only at duly held meetings of our Board of Directors, with an exercise price equal to the closing price of our common stock on the date of the Board meeting.

#### Compensation of our Named Executive Officers

The amount of each component of compensation established for the named executive officers is based on a number of factors. These factors include company performance, individual performance, compensation paid by companies comparable in size to Qualstar, the recommendations of our Chief Executive Officer, William J. Gervais, and a review of the prior compensation history of each executive officer. Some of these factors are discussed above. Other factors applicable to each named executive officer are discussed below.

William J. Gervais and Richard A. Nelson co-founded Qualstar in 1984 and they continue to serve Qualstar full time as executive officers. The Compensation Committee considers both Mr. Gervais and Mr. Nelson to be largely responsible for the success the Company has achieved, and to be two of our most important employees. However, Mr. Gervais and Mr. Nelson historically have requested that their base salaries be maintained at levels the Compensation Committee considers to be relatively low. The reasons for this include their belief that in the long term their individual equity ownership of Qualstar potentially will provide greater financial returns than current compensation. In order to reduce costs, our Board of Directors, upon the recommendation of Mr. Gervais, reduced the base salaries of Mr. Gervais and Mr. Nelson, as well as of Mr. Covey, by 10% for an indefinite period, effective as of July 2009. Mr. Gervais and Mr. Nelson also have never requested nor accepted stock option awards.

Nidhi H. Andalon has been our Chief Financial Officer since January 2009 and was appointed Vice President by our Board of Directors on March 25, 2010. Ms. Andalon joined Qualstar's finance department in January 2003 as a senior accountant, and was promoted to Assistant Controller in June 2004 and to Controller in October 2005. In recognition of her performance as Chief Financial Officer during her first six months in that position, our Board approved an increase in her base salary to a rate of \$150,000 per year, effective as of July 2009.

Randy Johnson has served as the General Manager of our N2Power business unit since 2002, and was appointed Vice-President and General Manager, N2Power by our Board of Directors on March 25, 2010. Mr. Johnson has primary responsibility for all aspects of our power supply business, including sales. Mr. Johnson's base salary of \$180,000 per year and his incentive compensation plan, as described above, remain unchanged from the prior year.

Robert K. Covey has been our Vice President of Marketing since 1994. However, in order to reduce costs, our Board of Directors, upon the recommendation of Mr. Gervais, reduced the base salary of Mr. Covey, as well as the base salaries of Mr. Gervais and Mr. Nelson, by 10% for an indefinite period, effective as of July 2009.

#### Tax Considerations

Under Section 162(m) of the Internal Revenue Code, we generally receive a federal income tax deduction for compensation paid to any of our named executive officers only to the extent total compensation does not exceed \$1.0 million during any fiscal year or if it is "performance-based" under Section 162(m). The total compensation earned by our executive officers has always been less than \$1.0 million and, consequently, the limitations imposed by Section 162(m) have not been a factor.

### COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed the foregoing Compensation Discussion and Analysis and has discussed its contents with Qualstar's management and the Board of Directors. Based on the review and discussions, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this report.

Submitted by the  
members of the  
Compensation Committee  
Stanley W. Corker  
(Chairman)  
Carl W. Gromada  
Robert A. Meyer

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Our Board of Directors has a standing Compensation Committee. The members of this committee during the fiscal year ended June 30, 2010 and presently are Stanley W. Corker, Carl W. Gromada and Robert A. Meyer. No executive officer of Qualstar serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors. No member of the Compensation Committee is, or ever has been, an employee or officer of Qualstar.

## EXECUTIVE COMPENSATION

## Summary Compensation Table

The following tables show information about the compensation earned by our principal executive officer, our principal financial officer, and our other executive officers who were serving as executive officers at June 30, 2010. These officers are referred to in this report as the “named executive officers.”

## Fiscal Year 2010 Summary Compensation Table

| Name and Principal Position  | Year | Salary (1)<br>(\$) | Bonus (1)<br>(\$) | Grant Date<br>Fair Value<br>of Option<br>Awards (2)<br>(\$) | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|--|------|--------------------|-------------------|---|-----------------------------------|---------------|
| William J. Gervais<br>Chief Executive<br>Officer and President         | 2010 | \$158,170          | \$—               | \$—   | \$3,102                           | \$161,272     |
|  | 2009 | 178,838            | —                 | —   | 2,254                             | 181,092       |
|  | 2008 | 195,000            | —                 | —   | 3,867                             | 198,867       |
| Nidhi H. Andalon (4)<br>Vice President and<br>Chief Financial Officer  | 2010 | 150,010            | —                 | —   | 919                               | 150,929       |
|  | 2009 | 130,276            | —                 | —   | 1,275                             | 131,551       |
| Randy Johnson (5)<br>Vice President and<br>General Manager,<br>N2Power | 2010 | 180,003            | 3,600             | —   | 573                               | 184,176       |
| Richard A. Nelson<br>Vice President of<br>Engineering                  | 2010 | 153,658            | —                 | —   | —                                 | 153,658       |