

QUALSTAR CORP  
Form 10-K/A  
October 29, 2007

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K/A**

**AMENDMENT NO. 1**

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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**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:  
Common Stock

Name of Each Exchange on Which Registered:  
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

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

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  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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer

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, 2006, the aggregate market value of the common equity held by non-affiliates of the registrant was approximately \$24,478,000.

The total shares of common stock without par value outstanding at September 13, 2007 is 12,253,117.

**DOCUMENTS INCORPORATED BY REFERENCE**

None

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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:

<b>Name</b>	<b>Age</b>	<b>Position</b>
William J. Gervais	64	Chief Executive Officer, President and Director
Richard A. Nelson	64	Vice President — Engineering, Secretary and Director
Stanley W. Corker	56	Director
Carl W. Gromada	66	Director
Robert A. Meyer	62	Director
Robert E. Rich	57	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.

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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, 2007, our officers, directors and greater than ten percent beneficial owners complied with all Section 16(a) filing requirements.

**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, controller 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 three most highly compensated executive officers who were serving as executive officers of Qualstar at June 30, 2007. 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.

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The table below shows the base salary established for each of our named executive officers for fiscal years 2007 and 2008, and the percentage increase compared to the prior fiscal year. Salary adjustments generally take effect in October of each year, so the amounts shown below may not be exactly the same as those shown in the Fiscal 2007 Summary Compensation Table.

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<b>Name and Principal Position</b>	<b>Fiscal 2007 Base Salary</b>	<b>Percent Increase versus Fiscal 2006 Base Salary</b>	<b>Fiscal 2008 Base Salary</b>	<b>Percent Increase versus Fiscal 2007 Base Salary</b>
William J. Gervais Chief Executive Officer and President	\$ 195,000	5.4%	\$ 195,000	
Andrew A. Farina (1) Vice President and Chief Financial Officer	\$ 165,000	(1)	\$ 170,000	3.0%
Richard A. Nelson Vice President of Engineering	\$ 170,000	16.4%	\$ 170,000	
Robert K. Covey Vice President of Marketing	\$ 172,000	3.0%	\$ 172,000	
Robert C. King Vice President of Sales	\$ 171,000 <sup>(2)</sup>	3.0%	\$ 171,000 <sup>(2)</sup>	

(1) Mr. Farina's employment commenced on November 27, 2006.

(2) The amounts shown for Mr. King includes an allowance of \$6,000 per year for automobile expenses.

**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. Under the bonus plan established for the fiscal year ended June 30, 2007, the potential cash bonuses for all executive officers other than the Vice President of Sales were as follows: (1) from 0% of base salary if consolidated revenue for the fiscal year ending June 30, 2007 was less than \$22 million, to a maximum of 20% of base salary if consolidated revenue was more than \$38 million; plus (2) an additional amount ranging from 0% of base salary if the Company was not profitable for the fiscal year ending June 30, 2007, to a maximum of 20% of base salary if consolidated pre-tax profits were more than 19% of consolidated revenue for the fiscal year. For the Vice President of Sales, the potential cash bonus for the fiscal year ended June 30, 2007 was as follows: (1) from \$3,000 if consolidated revenue, excluding revenue from sales of power supplies, was \$20 million, up to \$75,000 if consolidated revenue, excluding revenue from sales of power supplies, was \$35 million; plus (2) an additional amount ranging from 0% of base salary if consolidated pre-tax profits, including profits from sales of power supplies, were less than 5% of consolidated revenue for the fiscal year ending June 30, 2007, to a maximum of 15% of base salary if consolidated pre-tax profits, including profits from sales of power supplies, were more than 19% of consolidated revenue for the fiscal year.

The Company's Board of Directors reserves the right to modify the bonus plan from time to time, and to pay discretionary cash bonuses, if deemed appropriate. Because Qualstar achieved revenues of only \$21.7 million (including revenues from power supplies) and a net loss of \$1.4 million in fiscal 2007, no executive officer earned a cash bonus under the plan described above. However, based on the individual performance of our Vice President of Sales, the Board awarded him a discretionary cash bonus of \$14,000 for fiscal 2007.



The Board of Directors has not yet defined a bonus plan for executive officers for fiscal 2008.

***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.

Under our 1998 Stock Incentive Plan, 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.

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***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.

Mr. Gervais and Mr. 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 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. For the same reason, they have never requested nor accepted stock option awards.

Mr. Farina has been an employee of Qualstar since November 27, 2006 and our Chief Financial Officer since December 14, 2006. His starting base salary was \$165,000 per year, and upon appointment as an officer, the Board awarded him a stock option for 50,000 shares of our common stock. On August 30, 2007, the Board approved an increase in his base salary to \$170,000 to bring his compensation more in line with amounts paid to chief financial officers at public companies of a size similar to Qualstar.

Mr. Covey and Mr. King each received a modest 3.0% increase in his base salary for fiscal year 2007. Mr. King also received a stock option grant for 50,000 shares in fiscal 2007 in recognition of his efforts in launching our new XLS family of enterprise class tape libraries.

Other than as described above for Mr. Farina, no executive officer received a raise for fiscal 2008 due to the below-plan financial performance of Qualstar during fiscal 2007.

**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, 2007 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.

Table of Contents**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table shows the compensation earned during the fiscal year ended June 30, 2007 by our principal executive officer, each person who served as our principal financial officer during the fiscal year, and our three other most highly compensated executive officers who were serving as executive officers at June 30, 2007. These officers are referred to in this report as the “named executive officers.”

**Fiscal 2007 Summary Compensation Table**

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (1) (\$)</b>	<b>Bonus (1) (\$)</b>	<b>Option Awards (2) (\$)</b>	<b>All Other Compensation (3) (\$)</b>	<b>Total (\$)</b>
William J. Gervais Chief Executive Officer and President	2007	\$ 193,000	\$ —	—\$	—\$ 3,868	\$ 196,868
Andrew A. Farina (4) Vice President and Chief Financial Officer	2007	92,000	—	6,017	286	