

QUALSTAR CORP
Form 10-K/A
October 27, 2006

Table of Contents

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

Form 10-K/A

AMENDMENT NO. 1

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

**o 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

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

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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 Rule 12b-2 of the Exchange Act). Yes No

As of October 20, 2006, the aggregate market value of the common equity held by non-affiliates of the registrant was approximately \$26,165,470.

The total number of shares of common stock outstanding at October 20, 2006 was 12,253,117.

DOCUMENTS INCORPORATED BY REFERENCE

None

TABLE OF CONTENTS

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

ITEM 11. EXECUTIVE COMPENSATION

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND
MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

EXHIBIT 31.1

EXHIBIT 31.2

Table of Contents

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers of the Company is included in Part I Item 1 of this report under the heading Executive Officers of the Registrant . Information regarding the directors of the Company is set forth below.

NAME	AGE	POSITION
William J. Gervais	63	Chief Executive Officer, President, Director and Acting Chief Financial Officer(1)
Richard A. Nelson	63	Vice President Engineering, Secretary and Director
Stanley W. Corker	55	Director
Carl W. Gromada	65	Director
Robert A. Meyer	61	Director
Robert E. Rich	56	Director

(1) Our previous Chief Financial Officer resigned effective as of August 18th, 2006. We are actively searching for a new Chief Financial Officer. In the interim, Mr. Gervais is serving in the capacity of Chief Financial Officer.

William J. Gervais is a founder of Qualstar, 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, a former manufacturer of hard disk drives. Mr. Gervais earned a B.S. degree in Mechanical Engineering from California State Polytechnic University 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 in 1966.

Stanley W. Corker has been 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 been 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 been 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

Table of Contents

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.

AUDIT COMMITTEE

Qualstar's Board of Directors has established a standing audit committee, which is currently comprised of the following directors: Stanley W. Corker, Carl W. Gromada and Robert A. Meyer. All members of the audit committee are non-employee directors and satisfy the current standards with respect to independence, financial expertise and experience established by rules of The Nasdaq Stock Market, Inc. Our Board of Directors has determined that both Carl W. Gromada and Robert A. Meyer meet the Securities and Exchange Commission's definition of audit committee financial expert.

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 principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. A copy of the Code of Business Conduct and Ethics has been incorporated by reference to the designated exhibit to Qualstar's Report on Form 10-K for the fiscal year ended June 30, 2006. A copy of the Code of Business Conduct and Ethics is also posted on our website at 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.

COMPLIANCE WITH SECTION 16(a) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires Qualstar's executive officers and directors, and persons who beneficially own more than ten percent of Qualstar's common stock, to file initial reports of ownership and reports of changes in ownership with the SEC and the National Association of Securities Dealers, Inc. Executive officers, directors and persons who beneficially own more than ten percent of Qualstar's common stock are required by SEC regulations to furnish Qualstar with copies of all Section 16(a) forms they file.

Based solely upon our review of the copies of reporting forms furnished to Qualstar, and written representations that no other reports were required, we believe that all filing requirements under Section 16(a) of the Securities Exchange Act of 1934 applicable to directors, officers and any persons holding more than ten percent of Qualstar's common stock with respect to the fiscal year ended June 30, 2006, were satisfied on a timely basis.

Table of Contents**ITEM 11. EXECUTIVE COMPENSATION****SUMMARY COMPENSATION TABLE**

The following table summarizes all compensation earned by our Chief Executive Officer and the four other most highly compensated executive officers whose total salary and bonus exceeded \$100,000 for services rendered in all capacities to us during the fiscal year ended June 30, 2006. These individuals are referred to as our named executive officers in other parts of this report. The amounts shown below under All Other Compensation represent matching contributions under our 401(k) plan.

Name and Principal Position	Year	Annual Compensation		Long Terms Compensation	All Other
		Salary (\$)	Bonus (\$)	Awards Securities Underlying Options (#)	Compensation (\$)
William J. Gervais Chief Executive Officer and President	2006	\$ 185,000			
	2005	185,000			
	2004	185,000			
Richard A. Nelson Vice President of Engineering and Secretary	2006	146,000			2,114
	2005	146,000			2,190
	2004	146,000			2,190
Robert K. Covey Vice President of Marketing	2006	173,000			1,734
	2005	173,000			1,734
	2004	167,000			1,700
David L. Griffith Vice President of Operations	2006	165,000			2,475
	2005	165,000			1,809
	2004	165,000			
Frederic T. Boyer(1) Chief Financial Officer	2006	175,000			2,625
	2005	175,000			2,625
	2004	175,000			2,600

(1) Mr. Boyer resigned effective as of August 18, 2006.

OPTION GRANTS IN LAST FISCAL YEAR

The following table sets forth certain information concerning grants of options to each of the named executive officers during the year ended June 30, 2006. In addition, in accordance with the rules and regulations of the Securities and Exchange Commission, the following table sets forth the hypothetical gains or option spreads that would exist for the options. Such gains are based on assumed rates of annual compound stock appreciation of 5% and 10% from the date on which the options were granted over the full term of the options. The rates do not represent Qualstar's estimate or projection of future common stock prices, and no assurance can be given that any appreciation will occur or that the rates of annual compound stock appreciation assumed for the purposes of the following table will be achieved.

Name	Options Granted (# of Shares)(1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise		Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
			Price (\$/Share)	Expiration Date	5% (\$)	10% (\$)
William J. Gervais						
Richard A. Nelson						
Robert K. Covey						
David L. Griffith						
Frederic T. Boyer						

Table of Contents

- (1) The per share exercise price of all options granted is the fair market value of Qualstar's common stock on the date of grant. Options have a term of 10 years and become exercisable in four equal annual installments commencing one year after the grant date.
- (2) The potential realizable value is calculated from the exercise price per share, assuming the market price of Qualstar's common stock appreciates in value at the stated percentage rate from the date of grant to the expiration date. Actual gains, if any, are dependent on the future market price of the common stock.

OPTIONS EXERCISED AND FISCAL YEAR-END VALUES

The following table sets forth information regarding options exercised by our named executive officers during the fiscal year ended June 30, 2006, the number of shares covered by both exercisable and unexercisable options as of June 30, 2006, and the value of unexercised in-the-money options held by our named executive officers as of June 30, 2006.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at June 30, 2006		Value of Unexercised In-the-Money Options at June 30, 2006(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
William J. Gervais						
Richard A. Nelson						
Robert K. Covey			20,000			
David L. Griffith			80,000			
FredericT. Boyer			75,000	25,000		

- (1) Represents the closing sale price of our common stock on June 30, 2006 (\$3.35), less the exercise price per share, multiplied by the number of shares subject to the options held by the named executive officer.

COMPENSATION OF DIRECTORS

Each of our non-employee directors receive \$2,000 per quarter plus \$1,000 for each Board meeting attended as compensation for their service on the Board, and are reimbursed for expenses incurred in connection with attendance at meetings of the Board and any committees on which they serve. Directors who serve on the Audit Committee of our Board receive an additional fee of \$1,000 per quarter plus an attendance fee of \$500 per meeting if the Audit Committee meeting is held in conjunction with a meeting of the full Board, and \$1,000 per meeting if held on a day when the full Board does not meet. Directors who serve on the Compensation Committee of our Board receive an additional fee of \$500 for attending meetings of that committee that are held on a day when the full Board does not meet. An attendance fee of \$250 per meeting is paid for telephonic meetings of the full Board or of a committee on which a director is a member. No fees are paid for service on the Board to directors who are employees of Qualstar.

Directors are eligible to receive options and rights to purchase stock under our 1998 Stock Incentive Plan. In June 2006, we granted to each of our four non-employee directors an option to purchase 24,000 shares of common stock exercisable at a price of \$3.02 per share, which was the closing price of our common stock on the date of grant. The right to exercise the options vests at a rate of 25% per year over a period of four years from the date of grant.

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN
COMPENSATION DECISIONS**

During the fiscal year ended June 30, 2006, the members of the Compensation Committee of our Board of Directors were Stanley W. Corker, Carl W. Gromada, Robert A. Meyer. No executive officer serves

Table of Contents

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.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS
AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth information with respect to the beneficial ownership of our common stock as of October 20, 2006 for:

each person (or group of affiliated persons) who we know beneficially owns more than 5% of our common stock;

each of our directors;

each of the named executive officers; and

all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. Except as indicated by footnote, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned, subject to community property laws where applicable. Shares of common stock subject to options currently exercisable or exercisable within 60 days of October 20, 2006, are deemed outstanding for computing the percentage of the person holding such options, but are not deemed outstanding for computing the percentage of any other person. The address for those individuals for which an address is not otherwise indicated is: c/o Qualstar Corporation, 3990-B Heritage Oak Court, Simi Valley, CA 93063.

Name of Beneficial Owner	Shares Beneficially Owned	Percent of Shares Outstanding
Wells Capital Management Inc.(1) 525 Market Street, 10th Floor San Francisco, CA 94104	1,765,454	14.4%
Wellington Management(2) 75 State Street Boston, MA 02109	1,019,173	8.3%
Fidelity Management & Research Co.(3) 82 Devonshire Street Boston, MA 02109	1,260,803	10.3%
William J. Gervais	2,886,350	23.6%
Richard A. Nelson	1,906,560	15.6%
Stanley W. Corker	3,940	
Carl W. Gromada	48,271	0.4%
Robert A. Meyer		
Robert E. Rich	131,400	1.1%
Robert K. Covey(4)	108,280	0.9%
David L. Griffith(5)	80,000	0.6%
All directors and officers as a group (9 persons)(6)	5,177,301	41.9%

- (1) Based on information contained in a Schedule 13G filed with the Securities and Exchange Commission on or about June 30, 2006, Wells Fargo & Company, as the parent holding company of Wells Capital Management Incorporated, an investment adviser, beneficially owns 1,765,454 shares.
- (2) Based on information contained in a Schedule 13G filed with the Securities and Exchange Commission on or about June 30, 2006, Wellington Management Company, LLP, in its capacity as an investment adviser, beneficially owns 1,019,173 shares.

Table of Contents

- (3) Based on information contained in a Schedule 13G filed with the Securities and Exchange Commission on or about June 30, 2006, FMR Corporation, as the parent holding company of Fidelity Management & Research Company, an investment adviser, beneficially owns 1,260,803 shares and has sole dispositive power over these shares but no voting power.
- (4) Includes 20,000 shares subject to stock options that are currently exercisable or exercisable within 60 days of October 20, 2006.
- (5) Includes 80,000 shares subject to stock options that are currently exercisable or exercisable within 60 days of October 20, 2006.
- (6) Includes 112,500 shares subject to stock options that are currently exercisable within 60 days of October 20, 2006.

ADDITIONAL EQUITY COMPENSATION PLAN INFORMATION

The following table provides additional information regarding Qualstar's equity compensation plans as of June 30, 2006:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
			Equity compensation plans approved by security holders(1)
Equity compensation plans not approved by security holders			
Totals	557,000	\$ 4.36	245,175

- (1) Includes shares subject to stock options granted under the 1998 Stock Incentive Plan, and shares available for additional option grants under that plan, as of June 30, 2006.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There were no relationships or related party transactions during the fiscal year ended June 30, 2006 which are required to be reported.

Table of Contents**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The aggregate fees billed by Ernst & Young LLP, independent accountants, for professional services rendered to Qualstar during the fiscal years ended June 30, 2006 and June 30, 2005 were comprised of the following:

	Fiscal 2006	Fiscal 2005
Audit Fees	\$ 156,653	\$ 146,140
Audit-related fees	9,457	6,400
Tax fees	78,235	130,250
All other fees		
Total fees	\$ 244,345	\$ 282,790

Audit fees include fees for professional services rendered in connection with the audit of our consolidated financial statements for each year and reviews of our unaudited consolidated quarterly financial statements, as well as fees related to consents and reports in connection with regulatory filings for those fiscal years.

Audit-related fees in fiscal 2006 and 2005 were primarily for general assistance in connection with the implementation of procedures required to comply with rules and regulations promulgated pursuant to the Sarbanes-Oxley Act of 2002.

Tax fees related primarily to tax compliance and advisory services, and the preparation of federal and state tax returns for each year. Tax fees in 2006 and 2005 also include professional services related to government audits of our federal and state tax returns.

AUDIT COMMITTEE PRE-APPROVAL POLICIES AND PROCEDURES

Our Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent accountants in accordance with applicable Securities and Exchange Commission rules. The Audit Committee adopted a written pre-approval policy on June 25, 2003, and all services performed by Ernst & Young in connection with engagements subsequent to June 25, 2003 were pre-approved in accordance with the Audit Committee's pre-approval policy. The Audit Committee generally pre-approves particular services or categories of services on a case-by-case basis. The independent accountants and management periodically report to the Audit Committee regarding the extent of services provided by the independent accountants in accordance with these pre-approvals, and the fees for the services performed to date.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this amendment to report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

QUALSTAR CORPORATION

Date: October 27, 2006

By: /s/ WILLIAM J. GERVAIS

William J. Gervais
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this amendment to report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ WILLIAM J. GERVAIS William J. Gervais	Chief Executive Officer, President and Director (Principal Executive Officer and Principal Financial Officer)	October 27, 2006
/s/ RICHARD A. NELSON Richard A. Nelson	Vice President, Engineering Secretary and Director	October 27, 2006
/s/ CARL W. GROMADA Carl W. Gromada	Director	October 27, 2006
/s/ STANLEY W. CORKER Stanley W. Corker	Director	October 27, 2006
/s/ ROBERT E. RICH Robert E. Rich	Director	October 27, 2006
/s/ ROBERT A. MEYER Robert A. Meyer	Director	October 27, 2006
/s/ NIDHI H. ANDALON Nidhi H. Andalon	Controller	October 27, 2006

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.