

QUALSTAR CORP
Form 10-K/A
October 28, 2005

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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, 2005

OR

**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

(Exact name of Registrant as specified in its charter)

California

95-3927330

(State of Incorporation)

(I.R.S. Employer Identification
No.)

3990-B Heritage Oak Court, Simi Valley, CA 93063

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (805) 583-7744

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

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

Common Stock, without par value

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 a 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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 14, 2005, the aggregate market value of the common equity held by non-affiliates of the registrant was approximately \$28,304,558.

The total number of shares of common stock outstanding at October 14, 2005 was 12,253,117.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers of the Company is included in Part I of this report under the heading Management. Information regarding the directors of the Company is set forth below.

Name	Age	Position
William J. Gervais	62	Chief Executive Officer, President and Director
Richard A. Nelson	62	Vice President Engineering, Secretary and Director
Carl W. Gromada	64	Director
Robert E. Rich	55	Director
Robert T. Webber	64	Director

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.

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 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.

Robert T. Webber has served as a director of Qualstar since January 2000. From 2000 to the present, Mr. Webber has been a consultant and has served on committees supporting various non-profit organizations. Prior to his retirement in 1999, Mr. Webber was employed for 32 years by Lockheed-Martin Skunk Works and its predecessors, where he served in various positions, the most recent as Chief Engineer and Division Manager for the Systems Requirements & Analysis Division. Mr. Webber received a B.S. degree in Engineering from the University of California, Los Angeles in 1963 and an M.B.A. degree from Pepperdine University in 1971.

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

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Audit Committee

Qualstar's Board of Directors has established a standing audit committee, which is currently comprised of the following directors: Carl M. Gromada and Robert T. Webber. 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. Until his death on October 8, 2005, Mr. Jose Miyar was a member of our Board of Directors, Chairman of our audit committee, and met the Securities and Exchange Commission's definition of audit committee financial expert. As a result of Mr. Miyar's death, we have only two members on our Audit committee and one vacancy. In accordance with NASD Rule 4350(d)(2)(A), we are required to have an audit committee consisting of at least three independent directors in order to remain listed on the Nasdaq National Market. Under Nasdaq Rule 4350(d)(4)(B), we have until the earlier of the Company's next annual shareholders' meeting or October 8, 2006 to fill the vacancy with an independent director who meets 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, 2005. 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, 2005, were satisfied on a timely basis.

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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, 2005. 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 Term Compensation Awards	All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Securities Underlying Options (#)	
William J. Gervais Chief Executive Officer and President	2005	\$ 185,000		$\frac{3}{4}$	$\frac{3}{4}$
	2004	185,000		$\frac{3}{4}$	$\frac{3}{4}$
	2003	180,600		$\frac{3}{4}$	
Richard A. Nelson Vice President of Engineering and Secretary	2005	146,000		$\frac{3}{4}$	2,190
	2004	146,000		$\frac{3}{4}$	2,190
	2003	142,500			2,137
Robert K. Covey Vice President of Marketing	2005	173,000			1,734
	2004	167,000			1,700
	2003	162,600			1,600
David L. Griffith Vice President of Operations	2005	165,000			1,809
	2004	165,000			
	2003	160,600			
Frederic T. Boyer (1) Vice President and Chief Financial Officer	2005	175,000			2,625
	2004	175,000			2,600
	2003	111,700	10,000	100,000	

(1) Frederic T. Boyer became our Vice President and Chief Financial Officer in October 2002.

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, 2005. 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.

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

(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, 2005, the number of shares covered by both exercisable and unexercisable options as of June 30, 2005, and the value of unexercised in-the-money options held by our named executive officers as of June 30, 2005.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Number of Shares Acquired on Exercise		Number of Securities Underlying Unexercised Options at June 30, 2005		Value of Unexercised In-the-Money Options at June 30, 2005 ⁽¹⁾	
	Value	Realized	Exercisable	Unexercisable	Exercisable	Unexercisable
William J. Gervais						
Richard A. Nelson						
Robert K. Covey			15,000	5,000		
David L. Griffith			60,000	20,000		
Frederic T. Boyer			50,000	50,000		

(1) Represents the closing sale price of our common stock on June 30, 2005 (\$4.00), 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.

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Directors are eligible to receive options and rights to purchase restricted stock under our 1998 Stock Incentive Plan. No options were granted to any of our directors during the fiscal year ended June 30, 2005.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

During the fiscal year ended June 30, 2005, the members of the Compensation Committee of our Board of Directors were Carl W. Gromada, Jose Miyar and Robert T. Webber. Mr. Miyar passed away on October 8, 2005 and the Compensation Committee currently consists of Carl W. Gromada and Robert T. Webber. No executive officer 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.

**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 14, 2005 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 14, 2005, 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.

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Name of Beneficial Owner	Shares Beneficially Owned	Percent of Shares Outstanding
Wells Capital Management Inc. (1) 525 Market Street, 10 th Floor San Francisco, CA 94104	1,657,850	13.5%
Wellington Management (2) 75 State Street Boston, MA 02109	857,604	7.0%
Fidelity Management & Research Co. (3) 82 Devonshire Street Boston, MA 02109	1,260,803	10.3%
William J. Gervais	2,881,350	23.5%
Richard A. Nelson	1,992,250	16.3%
Carl W. Gromada	47,271	0.4%
Robert E. Rich	131,400	1.1%
Robert T. Webber	88,000	0.7%
Frederic T. Boyer(4)	75,000	0.6%
Robert K. Covey(5)	144,280	1.2%
David L. Griffith(6)	80,000	0.6%
All directors and officers as a group (9 persons) (7)	5,439,551	43.8%

(1) Based on information contained in a Schedule 13G filed with the Securities and Exchange Commission on January 21, 2005, Wells Fargo & Company, as the parent holding company of Wells Capital Management Incorporated, an investment adviser, beneficially owns 1,657,850 shares. It has sole voting power as to 1,600,100 shares and sole

dispositive
power as to
1,657,850
shares.

- (2) Based on information contained in a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2005, Wellington Management Company, LLP, in its capacity as an investment adviser, beneficially owns 857,604 shares. It has shared voting power as to 444,304 shares and shared dispositive power as to 857,604 shares.

- (3) Based on information contained in a Schedule 13G filed with the Securities and Exchange Commission on March 10, 2005, 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 75,000 shares subject to stock options that are currently exercisable or exercisable within 60 days of October 14, 2005.
- (5) Includes 15,000 shares subject to stock options that are currently exercisable or exercisable within 60 days of October 14, 2005.
- (6) Includes 80,000 shares subject to stock options that are currently exercisable or exercisable within 60 days of October 14, 2005.
- (7) Includes 170,000 shares subject to stock options that are currently exercisable within 60 days of October 14,

2005.

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The following table provides additional information regarding Qualstar's equity compensation plans as of June 30, 2005:

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⁾	455,000	\$ 4.80	347,175
Equity compensation plans not approved by security holders			
Totals	455,000	\$ 4.80	347,175

(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, 2005.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There were no relationships or related party transactions during the fiscal year ended June 30, 2005 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, 2005 and June 30, 2004 were comprised of the following:

	Fiscal 2005	Fiscal 2004
Audit Fees	\$ 146,140	\$ 140,000
Audit-related fees	6,400	54,000
Tax fees	130,250	162,000
All other fees		
Total fees	\$ 282,790	\$ 356,000

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 2005 and 2004 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 for fiscal 2004 also include professional services rendered in connection with determining the availability of research and development tax credits.

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.

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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 be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: October 28, 2005

QUALSTAR CORPORATION

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 on Form 10K/A has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE

TITLE

DATE

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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.