QUALSTAR CORP
Form 10-K/A
October 28, 2003

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A
AMENDMENT NO. 1

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

For the fiscal year ended June 30, 2003

OR

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

(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 [X] 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. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X].

As of September 24, 2003, the aggregate market value of the common equity held by non-affiliates of the registrant was approximately $37,091,000.

The total number of shares of common stock outstanding at September 24, 2003 was 12,639,609.

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
EXHIBIT INDEX
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 of this report under the heading Management. Information regarding the directors of the Company is set forth below.

Name	Age	Position
William J. Gervais	60	Chief Executive Officer, President and Director
Richard A. Nelson	60	Vice President Engineering, Secretary and Director
Bruce E. Gladstone	68	Director
Robert E. Rich	53	Director
Trude C. Taylor	81	Director
Robert T. Webber	62	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.

Bruce E. Gladstone has been a director of Qualstar since 1994. From April 2000 until March 2003, Mr. Gladstone served as Executive Vice President of 2KSounds, Inc., a company engaged in the production and distribution of music. In 1997, Mr. Gladstone was a co-founder of ComCore Semiconductor, a fabless semiconductor company, and served as its Vice President and as a director from 1997 until its sale in 1998. From 1996 until 1997, Mr. Gladstone was a consultant in the area of high technology startup companies. In 1990, Mr. Gladstone co-founded Chronology Corporation, a company that provides tools for electronic engineers, and served as an executive officer and director from 1990 until 1995. During the period 1974 through 1990, Mr. Gladstone founded and served as chief executive officer and president of three companies providing electronic engineering and software development tools. Mr. Gladstone began his career in electrical engineering and received B.S. and M.S. degrees in Engineering from the University of California, Los Angeles in 1957 and 1962.

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.

Trude C. Taylor served as a director of Qualstar from October 1989 until December 1995, and rejoined our board in January 2000. Since 1984, Mr. Taylor has been a principal of TC Associates, a private investment firm. Mr. Taylor served as Chairman of the Board, Chief Executive Officer and a director of Zehntel Corporation, an automatic electronic test equipment manufacturer, from 1984 until 1988. Mr. Taylor was a founder and served as Chief Executive Officer, President and a director of EM&M Corporation, a computer components and memory products company, from 1961 until 1984, and served as its Chairman of the Board from 1984 until 1986. Mr. Taylor

Table of Contents

served on the board of directors of Xylan Corporation until it was acquired by Alcatel S.A. in 1999, and currently serves on the board of directors of Plantronics, Inc. Mr. Taylor also serves as a trustee of Harvey Mudd College, and as an arbitrator for the New York Stock Exchange and the National Association of Securities Dealers, Inc. Mr. Taylor received a B.S. degree in Mechanical Engineering from the University of California, Los Angeles in 1949, and an M.B.A. degree from Harvard University in 1951.

Robert T. Webber has served as a director of Qualstar since January 2000. 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, most recently as Chief Engineer and Division Manager for the Systems Requirements & Analysis Division. Mr. Webber currently serves on the executive board of the National Defense Industrial Association s Combat Survivability Division, a professional trade association. 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.

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, 2003, were satisfied on a timely basis.

Table of Contents

ITEM 11. EXECUTIVE COMPENSATION

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, 2003. 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.

Summary Compensation Table

		Annual Compensation		Long Term Compensation Awards	
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Securities Underlying Options (#)**	**All Other Compensation ($)**
William J. Gervais	2003	$180,600			
Chief Executive Officer	2002	160,300			
and President	2001	148,000			
Thomas J. Studebaker (1)	2003	187,000		40,000	$ 650
Vice President of Advanced	2002	43,200			
Development					
Robert K. Covey	2003	162,600			1,600
Vice President of Marketing	2002	158,300		20,000	1,600
	2001	152,000			1,700
David L. Griffith (2)	2003	160,600			
Vice President of Operations	2002	110,100		80,000	
Mark R. Gilmore (3)	2003	134,000	10,000		1,900
Vice President of Sales	2002	92,500		40,000	

(1) Thomas J. Studebaker became our V.P. of Advanced Development in April 2002.

(2) David L. Griffith became our V.P. of Operations in October 2001.

(3) Mark R. Gilmore became our Vice President of Sales in January 2002.

Table of Contents

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, 2003. 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 Price ($/Share)	Expiration Date	Potential Realizable Value At Assumed Annual Rates of Stock Price Appreciation for Option Term[2] 5%($)	10%($)
William J. Gervais						
Thomas J. Studebaker	40,000	24.0%	5.74	5/14/012	204,794	426,323
Robert K. Covey						
David L Griffith						
Mark R. Gilmore						

(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, 2003, the number of shares covered by both exercisable and unexecisable options as of June 30, 2003, and the value of unexercised in-the-money options held by our named executive officers as of June 30, 2003.

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, 2003 Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at June 30, 2003[1] Exercisable	Unexercisable
William J. Gervais						
Thomas J. Studebaker			10,000	30,000		
Robert K. Covey			5,000	15,000		
David L. Griffith			20,000	60,000	22,600	67,800
Mark R. Gilmore			10,000	30,000		

(1) Represents the closing sale price of our common stock on June 30, 2003 ($5.50), less the exercise price per share, multiplied by the number of shares subject to the options held by the named executive officer.

Table of Contents

Compensation of Directors

Each of our non-employee directors receives $2,000 per quarter as compensation for his service on the Board, and is reimbursed for expenses incurred in connection with attendance at Board meetings. Non-employee directors who serve on a committee of the Board also receive $500 for each committee meeting attended, excluding telephonic meetings, that is held on a day when the full Board is not also meeting. Directors are eligible to receive options and rights to purchase restricted stock under our 1998 Stock Incentive Plan. In January 2000, we granted to each of our four non-employee directors the right to purchase 54,000 shares of restricted stock at a price of $2.78 per share, which each director purchased with a full-recourse promissory note. We have the right to repurchase a director s restricted shares at the original purchase price upon termination of his service for any reason. Our repurchase right lapses and the director s shares vest at the rate of 25% per year of service following the date of grant.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

During the fiscal year ended June 30, 2003, the members of the Compensation Committee of our Board of Directors were Bruce E. Gladstone, Trude C. Taylor 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.

Table of Contents

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 September 30, 2003 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 September 30, 2003, 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
William J. Gervais	2,881,350	22.8%
Richard A. Nelson	1,997,750	15.8%
Robert K. Covey (1)	157,400	1.2%
Bruce E. Gladstone (2)	54,000	0.4%
Robert E. Rich (2)	131,400	1.0%
Trude C. Taylor (2)	201,920	1.6%
Robert T. Webber (2)	88,000	0.7%
Thomas J. Studebaker (3)	10,000	0.1%
David L. Griffith (4)	20,000	0.2%
Mark R. Gilmore (3)	10,000	0.1%
All directors and officers as a group (11 persons) (5)	5,551,820	43.8%

(1) Includes 5,000 shares subject to stock options that are currently exercisable or exercisable within 60 days of September 30, 2003.

(2) Includes 13,500 shares that we have the right to repurchase if the shareholder s service on our board of directors terminates. Our repurchase right lapses as to 13,500 shares for each year of service on the board and will fully lapse as of January 14, 2004.

(3) Includes 10,000 shares subject to stock options that are currently exercisable or exercisable within 60 days of September 30, 2003.

(4) Includes 20,000 shares subject to stock options that are currently exercisable or exercisable within 60 days of September 30, 2003.

(5) Includes 45,000 shares subject to stock options that are currently exercisable or exercisable within 60 days of September 30, 2003, and an aggregate of 54,000 shares subject to a right of repurchase in favor of Qualstar which lapses as to 54,000 shares each year and will fully lapse as of January 14, 2004.

Table of Contents

Additional Equity Compensation Plan Information

The following table provides additional information regarding Qualstar s equity compensation plans as of June 30, 2003:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders[1]	480,500	$ 5.27	375,175
Equity compensation plans not approved by security holders			
Totals	480,500	$ 5.27	375,175

(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, 2003.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In January 2000 each of our four non-employee directors purchased 54,000 shares of restricted stock pursuant to our 1998 Stock Incentive Plan at a price of $2.78 per share, which was the fair market value of our stock on the date of grant as determined by our board of directors. Each director paid for his shares with a full-recourse promissory note in the amount of $150,000, secured by a pledge of the purchased shares. Payments of principal on the notes are due in four equal annual installments commencing on the second anniversary of the date of the note. Interest on the notes accrues at the rate of 6.21%, and is payable annually. As of September 30, 2003, the remaining principle balances owed under these promissory notes were $37,500 by Mr. Gladstone, $0 by Mr. Rich, $37,500 by Mr. Taylor, and $75,000 by Mr. Webber.

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

Dated: October 28, 2003

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
/s/ William J. Gervais William J. Gervais	Chief Executive Officer, President and Director (principal executive officer)	October 28, 2003
/s/ Richard A. Nelson Richard A. Nelson	Vice President of Engineering, Secretary and Director	October 28, 2003
/s/ Frederic T. Boyer Frederic T. Boyer	Vice President and Chief Financial Officer (principal financial and accounting officer)	October 28, 2003
/s/ Bruce E. Gladstone Bruce E. Gladstone	Director	October 28, 2003
/s/ Trude C. Taylor Trude C. Taylor	Director	October 28, 2003
/s/ Robert E. Rich Robert E. Rich	Director	October 28, 2003
/s/ Robert T. Webber Robert T. Webber	Director	October 28, 2003

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.