

Disclosure Statement Pursuant to the Pink Basic Disclosure Guidelines

Qualstar Corporation

15707 Rockfield Boulevard, Suite 105, Irvine, California 92618

805-583-7744
www.qualstar.com
IR@Qualstar.com

Quarterly Report

For the period ending June 30, 2024 (the “Reporting Period”)

Outstanding Shares

The number of shares outstanding of our Common Stock was:

1,447,122 as of June 30, 2024

1,627,419 as of December 31, 2023

Shell Status

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933, Rule 12b-2 of the Exchange Act of 1934 and Rule 15c2-11 of the Exchange Act of 1934):

Yes: No:

Indicate by check mark whether the company’s shell status has changed since the previous reporting period:

Yes: No:

Change in Control

Indicate by check mark whether a Change in Control¹ of the company has occurred during this reporting period:

Yes: No:

⁴ “Change in Control” shall mean any events resulting in:

- (i) Any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the “beneficial owner” (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company’s then outstanding voting securities;
- (ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company’s assets;
- (iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or
- (iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation

1) Name and address(es) of the issuer and its predecessors (if any)

In answering this item, provide the current name of the issuer and names used by predecessor entities, along with the dates of the name changes.

The issuer's name is Qualstar Corporation. The issuer was incorporated in California in 1984. The issuer is in "active" status in California.

Describe any trading suspension or halt orders issued by the SEC or FINRA concerning the issuer or its predecessors since inception:

None

List any stock split, dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None

Address of the issuer's principal executive office:

15707 Rockfield Boulevard, Suite 105, Irvine, California 92618

The address(es) of the issuer's principal place of business:

Check if principal executive office and principal place of business are the same address:

15707 Rockfield Boulevard, Suite 105, Irvine, California 92618

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

No: Yes: If Yes, provide additional details below:

2) Security Information

Transfer Agent

Name: Standard Registrar and Transfer Company
Phone: 1-801-571-8844
Email: info@standardtransferco.com
Address: 440 East 400 South, Suite 200, Salt Lake City, UT 84111

Publicly Quoted or Traded Securities:

The goal of this section is to provide a clear understanding of the share information for its publicly quoted or traded equity securities. Use the fields below to provide the information, as applicable, for all outstanding classes of securities that are publicly traded/quoted.

Trading symbol:	<u>QBAK</u>	
Exact title and class of securities outstanding:	<u>Common Stock</u>	
CUSIP:	<u>74758R307</u>	
Par or stated value:	<u>none</u>	
Total shares authorized:	<u>50,000,000</u>	<u>as of date: June 30, 2024</u>
Total shares outstanding:	<u>1,447,122</u>	<u>as of date: June 30, 2024</u>
Total number of shareholders of record:	<u>Less than 10</u>	<u>as of date: August 13, 2024</u>

Please provide the above-referenced information for all other publicly quoted or traded securities of the issuer.

Other classes of authorized or outstanding equity securities that do not have a trading symbol:

The goal of this section is to provide a clear understanding of the share information for its other classes of authorized or outstanding equity securities (e.g., preferred shares that do not have a trading symbol). Use the fields below to provide the information, as applicable, for all other authorized or outstanding equity securities.

Exact title and class of the security:	_____	
Par or stated value:	_____	
Total shares authorized:	_____	<u>as of date: _____</u>
Total shares outstanding:	_____	<u>as of date: _____</u>
Total number of shareholders of record:	_____	<u>as of date: _____</u>

Please provide the above-referenced information for all other classes of authorized or outstanding equity securities.

Security Description:

The goal of this section is to provide a clear understanding of the material rights and privileges of the securities issued by the company. Please provide the below information for each class of the company's equity securities, as applicable:

1. For common equity, describe any dividend, voting and preemption rights.

Shareholders of common stock participate in dividends if and when declared by the board of directors. Common stock shareholders receive one vote per share for matters subject to shareholder vote.

2. For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.

N/A. Preferred shares are authorized, but no preferred shares are issued/ outstanding.

3. Describe any other material rights of common or preferred stockholders.

None.

4. Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report.

None.

3) Issuance History

The goal of this section is to provide disclosure with respect to each event that resulted in any changes to the total shares outstanding of any class of the issuer's securities **in the past two completed fiscal years and any subsequent interim period**.

Disclosure under this item shall include, in chronological order, all offerings and issuances of securities, including debt convertible into equity securities, whether private or public, and all shares, or any other securities or options to acquire such securities, issued for services. Using the tabular format below, please describe these events.

A. Changes to the Number of Outstanding Shares for the two most recently completed fiscal years and any subsequent period.

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: Yes: (If yes, you must complete the table below)

Shares Outstanding as of Second Most Recent Fiscal Year End:			*Right-click the rows below and select "Insert" to add rows as needed.						
Opening Balance									
Date <u>January 1, 2022</u>									
Common: <u>1,884,033</u>									
Preferred: <u>None</u>									
Date of Transaction	Transaction type (e.g., new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to. *You must disclose the control person(s) for any entities listed.	Reason for share issuance (e.g. for cash or debt conversion) - OR- Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
<u>Jan2022 through Dec2022</u>	<u>Share repurchases (treasury)</u>	<u>(182,609)</u>	<u>Common</u>	<u>Various, average \$2.21</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
<u>09/26/2022</u>	<u>Share repurchases (treasury)</u>	<u>(74,005)</u>	<u>Common</u>	<u>\$2.25</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
<u>Jan2023 through Mar2023</u>	<u>Share repurchases (treasury)</u>	<u>(39,574)</u>	<u>Common</u>	<u>Various, average \$2.63</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
<u>Apr2023 through Jun2023</u>	<u>Share repurchases (treasury)</u>	<u>(9,810)</u>	<u>Common</u>	<u>Various, average \$2.23</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
<u>Jul2023 through Sept2023</u>	<u>Share repurchases (treasury)</u>	<u>(5,145)</u>	<u>Common</u>	<u>Various, average \$3.34</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
<u>10/18/2023</u>	<u>New Issuance</u>	<u>2,273</u>	<u>Common</u>	<u>\$2.20</u>	<u>No</u>	<u>David J. Wolenski</u>	<u>Services by Director</u>	<u>Restricted</u>	<u>N/A</u>

<u>Oct2023 through Dec2023</u>	<u>Share repurchases (treasury)</u>	<u>(128,041)</u>	<u>Common</u>	<u>Various, average \$2.93</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Shares Outstanding on Date of This Report: <u>Ending Balance:</u> Date <u>June 30, 2024</u> Common: <u>1,447,122</u> Preferred: <u>None</u>									

Example: A company with a fiscal year end of December 31st 2023, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2022 through December 31, 2023 pursuant to the tabular format above.

*****Control persons for any entities in the table above must be disclosed in the table or in a footnote here.**

Use the space below to provide any additional details, including footnotes to the table above:

B. Promissory and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities:

No: Yes: (If yes, you must complete the table below)

<u>Date of Note Issuance</u>	<u>Outstanding Balance (\$)</u>	<u>Principal Amount at Issuance (\$)</u>	<u>Interest Accrued (\$)</u>	<u>Maturity Date</u>	<u>Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)</u>	<u>Name of Noteholder.</u> <small>*** You must disclose the control person(s) for any entities listed.</small>	<u>Reason for Issuance (e.g. Loan, Services, etc.)</u>
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____

*****Control persons for any entities in the table above must be disclosed in the table or in a footnote here.**

Use the space below to provide any additional details, including footnotes to the table above:

4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations.

Ensure that these descriptions are updated on the Company's Profile on www.OTCMarkets.com.

A. Summarize the issuer's business operations (If the issuer does not have current operations, state "no operations")

Qualstar is a leading provider of data storage systems marketed under the Qualstar brand, and of high efficiency and high-density power solutions marketed under the N2Power brand.

B. List any subsidiaries, parent company, or affiliated companies.

Qualstar Corporation and its subsidiaries are organized into two strategic business segments, data storage systems and power solutions. Qualstar Corporation was incorporated in California in 1984 and currently has three wholly owned subsidiaries. The N2Power, Inc. subsidiary operates the Company's power supplies business. The Q-Smart Data Limited (China) subsidiary pursues new data storage business opportunities in Asia. The Qualstar Limited (U.K.) subsidiary expands the Company's data storage business in Europe and Africa.

C. Describe the issuers' principal products or services.

Qualstar's data storage system products include highly scalable automated magnetic tape-based storage solutions used to store, retrieve and manage electronic data primarily in the network computing environment and to provide solutions for organizations requiring backup, recovery and archival storage of critical electronic information. Qualstar's N2Power branded power solutions products provide unique power solutions to original equipment manufacturers for a wide range of markets, including communications networking, industrial, gaming, test equipment, lighting, medical as well as other market applications.

5) Issuer's Facilities

The goal of this section is to provide investors with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer and the extent in which the facilities are utilized.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer. Describe the location of office space, data centers, principal plants, and other property of the issuer and describe the condition of the properties. Specify if the assets, properties, or facilities are owned or leased and the terms of their leases. If the issuer does not have complete ownership or control of the property, describe the limitations on the ownership.

The Company's principal corporate office is in Irvine, California, which it occupies under a facilities agreement with an affiliated entity whose lease expires in 2025. The Company also leases facilities for warehousing, distributions, and operations in Camarillo, California (expiring 2027) and Singapore (month-to-month). The Company does not own any real estate.

6) All Officers, Directors, and Control Persons of the Company

Using the table below, please provide information, as of the period end date of this report, regarding all officers and directors of the company, or any person that performs a similar function, regardless of the number of shares they own.

In addition, list all individuals or entities controlling 5% or more of any class of the issuer's securities. If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual

representing the corporation or entity. Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

The goal of this section is to provide investors with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant or beneficial owners.

Names of All Officers, Directors and Control Persons	Affiliation with Company (e.g. Officer Title /Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership Percentage of Class Outstanding	Names of control person(s) if a corporate entity
Steven N. Bronson	Chairman, CEO, and President	Irvine, CA	185,700	Common	9.7%	Consists of (i) 113,000 shares held by Mr. Bronson individually, (ii) 17,500 shares in an IRA held by Mr. Bronson's former spouse, (iii) 42,600 shares of common stock held in an LLC of which Mr. Bronson is the managing member, (iv) 12,600 shares of common stock held by family members in brokerage accounts over which Mr. Bronson has trading authority. Excludes 100,000 exercisable common stock options held by Mr. Bronson which are out-of-the-money, and 100,000 common stock options held by Mr. Bronson which are not yet exercisable.
BKF Asset Holdings, Inc.	5%+ shareholder	Irvine, CA	890,090	Common	61.5%	BKF Asset Holdings is controlled by Steven N. Bronson, Chairman and CEO.
David J. Wolenski	Director	Littleton, CO	4,773	Common	<1.0%	Excludes 5,000 exercisable common stock options held by Mr. Wolenski which are out-of-the-money.
Ryan Hoffman	Acting CFO	Irvine, CA	-0-	Common	-0-%	

Confirm that the information in this table matches your public company profile on www.OTCMarkets.com. If any updates are needed to your public company profile, log in to www.OTCIQ.com to update your company profile.

7) Legal/Disciplinary History

A. Identify and provide a brief explanation as to whether any of the persons or entities listed above in Section 6 have, in the past 10 years:

1. Been the subject of an indictment or conviction in a criminal proceeding or plea agreement or named as a defendant in a pending criminal proceeding (excluding minor traffic violations);

None

2. Been the subject of the entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, financial- or investment-related, insurance or banking activities;

None

3. Been the subject of a finding, disciplinary order or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, a state securities regulator of a violation of federal or state securities or commodities law, or a foreign regulatory body or court, which finding or judgment has not been reversed, suspended, or vacated;

None

4. Named as a defendant or a respondent in a regulatory complaint or proceeding that could result in a "yes" answer to part 3 above; or

None

5. Been the subject of an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person's involvement in any type of business or securities activities.

None

6. Been the subject of a U.S Postal Service false representation order, or a temporary restraining order, or preliminary injunction with respect to conduct alleged to have violated the false representation statute that applies to U.S mail.

None

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party to or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

None

8) Third Party Service Providers

Provide the name, address, telephone number and email address of each of the following outside providers. You may add additional space as needed.

Confirm that the information in this table matches your public company profile on www.OTCMarkets.com. If any updates are needed to your public company profile, update your company profile.

Securities Counsel (must include Counsel preparing Attorney Letters).

Name: John McIlvery
Firm: Stubbs Alderton & Markiles, LLP
Address 1: 15260 Ventura Blvd, 20th Floor
Address 2: Sherman Oaks, CA 91403
Phone: (818) 444-4502
Email: jmcilvery@stubbsalderton.com

Accountant or Auditor

Name: _____
Firm: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

Investor Relations

Name: _____
Firm: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

All other means of Investor Communication:

X (Twitter): _____
Discord: _____
LinkedIn: _____
Facebook: _____
Other: _____

Other Service Providers

Provide the name of any other service provider(s) that **that assisted, advised, prepared, or provided information with respect to this disclosure statement**. This includes counsel, broker-dealer(s), advisor(s), consultant(s) or any entity/individual that provided assistance or services to the issuer during the reporting period.

Name: _____
Firm: _____
Nature of Services: _____
Address 1: _____
Address 2: _____
Phone: _____
Email: _____

9) Disclosure & Financial Information

A. This Disclosure Statement was prepared by (name of individual):

- B. Name: Ryan Hoffman
C. Title: Acting Chief Financial Officer
D. Relationship to Issuer: Officer
E. The following financial statements were prepared in accordance with:

- IFRS
 U.S. GAAP

F. The following financial statements were prepared by (name of individual):

- Name: Ryan Hoffman
Title: Acting Chief Financial Officer
Relationship to Issuer: Officer

Describe the qualifications of the person or persons who prepared the financial statements:⁵ Ryan has 20+ years of accounting, auditing and professional services experience in roles at global public accounting firms and corporations. He graduated with a degree in accounting from Chapman University and is a licensed CPA (inactive). He is also the Chief Financial Officer of Interlink Electronics, Inc. (Nasdaq: LINK) and BKF Capital Group, Inc. (OTCMKTS: BKFG).

Provide the following qualifying financial statements:

- Audit letter, if audited;
- Balance Sheet;
- Statement of Income;
- Statement of Cash Flows;
- Statement of Retained Earnings (Statement of Changes in Stockholders' Equity)
- Financial Notes

Financial Statement Requirements:

- Financial statements must be published together with this disclosure statement as one document.
- Financial statements must be "machine readable". Do not publish images/scans of financial statements.
- Financial statements must be presented with comparative financials against the prior FYE or period, as applicable.
- Financial statements must be prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS) but are not required to be audited.

10) Issuer Certification

⁵ The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS and by persons with sufficient financial skills.

Principal Executive Officer:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles but having the same responsibilities) in each Quarterly Report or Annual Report.

The certifications shall follow the format below:

I, Steven N. Bronson certify that:

1. I have reviewed this Disclosure Statement for Qualstar Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

August 13, 2024

/s/ Steven N. Bronson

Principal Financial Officer:

I, Ryan Hoffman certify that:

1. I have reviewed this Disclosure Statement for Qualstar Corporation;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

August 13, 2024

/s/ Ryan Hoffman



Qualstar Corporation and Subsidiaries

**Quarterly Report
For the Quarter Ended June 30, 2024**

**Qualstar Corporation
15707 Rockfield Boulevard, Suite 105
Irvine, CA 92618
Phone: +1 (805) 583-7744
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QUALSTAR CORPORATION AND SUBSIDIARIES

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QUALSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)
(Unaudited)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,427	\$ 2,275
Marketable securities	131	140
Accounts receivable, net	913	2,174
Inventories	2,706	2,870
Prepaid expenses and other current assets	279	343
Total current assets	6,456	7,802
Property and equipment, net	33	52
Right-of-use assets	446	88
Deferred tax assets	30	30
Other assets	57	59
Total assets	\$ 7,022	\$ 8,031
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 649	\$ 1,482
Accrued payroll and related liabilities	98	139
Deferred service revenue	516	577
Lease liabilities, current	131	95
Other liabilities	62	130
Total current liabilities	1,456	2,423
Long-term liabilities:		
Lease liabilities, long-term	316	-
Deferred service revenue, long-term	559	567
Other liabilities	27	27
Total long-term liabilities	902	594
Total liabilities	2,358	3,017
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock, no par value; 5,000,000 shares authorized; no shares issued	-	-
Common stock, no par value; 50,000,000 shares authorized; 1,447,122 shares issued and outstanding at both June 30, 2024 and December 31, 2023	17,778	17,701
Accumulated deficit	(13,114)	(12,687)
Total shareholders' equity	4,664	5,014
Total liabilities and shareholders' equity	\$ 7,022	\$ 8,031

QUALSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenues	\$ 2,366	\$ 1,878	\$ 4,653	\$ 4,070
Cost of goods sold	1,843	1,446	3,430	2,984
Gross profit	523	432	1,223	1,086
Operating expenses:				
Engineering	105	55	248	126
Sales and marketing	271	293	620	597
General and administrative	439	355	843	691
Total operating expenses	815	703	1,711	1,414
Loss from operations	(292)	(271)	(488)	(328)
Other income (expense), net	(35)	(6)	61	38
Loss before income taxes	(327)	(277)	(427)	(290)
Provision for income taxes	-	-	-	-
Net loss	\$ (327)	\$ (277)	\$ (427)	\$ (290)
Earnings (loss) per share:				
Basic and diluted	\$ (0.23)	\$ (0.17)	\$ (0.30)	\$ (0.18)
Weighted average common shares outstanding:				
Basic and diluted	1,447	1,585	1,447	1,603

QUALSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)
(Unaudited)

	Common Stock		Accumulated	Total
	Shares	Amount		
Three Months Ended June 30, 2024				
Balances at April 1, 2024	1,447	\$ 17,732	\$ (12,787)	\$ 4,945
Stock-based compensation expense	-	46	-	46
Net loss	-	-	(327)	(327)
Balances at June 30, 2024	1,447	\$ 17,778	\$ (13,114)	\$ 4,664

	Common Stock		Accumulated	Total
	Shares	Amount		
Six Months Ended June 30, 2024				
Balances at January 1, 2024	1,447	\$ 17,701	\$ (12,687)	\$ 5,014
Stock-based compensation expense	-	77	-	77
Net loss	-	-	(427)	(427)
Balances at June 30, 2024	1,447	\$ 17,778	\$ (13,114)	\$ 4,664

	Common Stock		Accumulated	Total
	Shares	Amount		
Three Months Ended June 30, 2023				
Balances at April 1, 2023	1,588	\$ 18,114	\$ (12,891)	\$ 5,223
Share repurchases	(10)	(22)	-	(22)
Net loss	-	-	(277)	(277)
Balances at June 30, 2023	1,578	\$ 18,092	\$ (13,168)	\$ 4,924

	Common Stock		Accumulated	Total
	Shares	Amount		
Six Months Ended June 30, 2023				
Balances at January 1, 2023	1,627	\$ 18,218	\$ (12,878)	\$ 5,340
Share repurchases	(49)	(126)	-	(126)
Net loss	-	-	(290)	(290)
Balances at June 30, 2023	1,578	\$ 18,092	\$ (13,168)	\$ 4,924

QUALSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	June 30,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (427)	\$ (290)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	19	19
Stock-based compensation expense	77	-
Realized and unrealized (gain) on marketable securities	(40)	(26)
Adjustment to reconcile operating lease expense to cash paid	(6)	(3)
Changes in operating assets and liabilities:		
Accounts receivable	1,261	712
Inventories	164	(67)
Prepaid expenses and other assets	65	49
Accounts payable	(833)	(396)
Accrued payroll and related liabilities	(41)	(8)
Deferred service revenue	(68)	(103)
Other liabilities	(68)	(24)
Net cash provided by (used in) operating activities	103	(137)
Cash flows from investing activities:		
Proceeds from sale of (purchases of) marketable securities, net	49	(103)
Net cash provided by (used in) investing activities	49	(103)
Cash flows from financing activities:		
Share repurchases	-	(126)
Net cash used in financing activities	-	(126)
Net increase (decrease) in cash and cash equivalents	152	(366)
Cash and cash equivalents at beginning of period	2,275	2,767
Cash and cash equivalents at end of period	\$ 2,427	\$ 2,401
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 12	\$ 6
Interest paid	\$ -	\$ -
Supplemental non-cash investing and financing activities:		
Lease liabilities arising from obtaining right-of-use assets	\$ 438	\$ -

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 – Significant Accounting Policies

Business

Qualstar Corporation and its Subsidiaries (“Qualstar”, the “Company”, “we”, “us” or “our”) manufacture and market data storage system products and compact, high efficiency power solutions. Our data storage systems are marketed under the Qualstar brand and include highly scalable automated magnetic tape libraries used to store, retrieve and manage electronic data primarily in the network computing environment. Our data storage devices include models ranging from entry level to enterprise and are a cost-effective solution for organizations requiring backup, recovery and archival storage of critical electronic information. The distribution channels for our data storage devices include resellers, system integrators, and original equipment manufacturers (“OEMs”). In addition, the Company is a leading provider of standard, semi-custom and custom power solutions marketed under the N2Power brand. Our power solution products provide OEMs and product-designers increased functionality while reducing thermal loads and cooling requirements and lowering operating costs. Our power solution products are currently sold to OEMs in a wide range of markets, including telecom/networking equipment, audio/visual, industrial, gaming and medical.

Qualstar Corporation was incorporated in California in 1984 and currently has three wholly owned subsidiaries. The N2Power, Inc. subsidiary (“N2Power”) operates the Company’s power supplies business. The Q-Smart Data Limited (China) subsidiary pursues new data storage business opportunities in Asia. The Qualstar Limited (U.K.) subsidiary expands the Company’s data storage business in Europe and Africa.

We sell our products globally through authorized resellers and distributors and directly to OEMs. Our data storage products are manufactured by our OEM suppliers in other parts of the world and configured to order by us at our facility in Camarillo, California, or at our facility in Shenzhen, China, or by our fulfilment and logistics partner in Warsaw, Poland. N2Power utilizes contract manufacturers in Asia to produce our power solutions products.

Principles of Consolidation

The consolidated financial statements include our accounts and the accounts of each of our wholly owned subsidiaries that were in existence during the periods presented: N2Power, Inc., Q-Smart Data Limited (China), and Qualstar Limited (U.K.). All significant intercompany accounts and transactions have been eliminated in consolidation.

Estimates and Assumptions

Preparing financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Examples include estimates of loss contingencies, product life cycles and inventory obsolescence, credit loss bad debts, sales returns, warranty costs, share-based compensation forfeiture rates, the tax consequences of events that have been recognized in our consolidated financial statements or tax returns, and determining when investment impairments are other-than-temporary. Actual results and outcomes may differ from management’s estimates and assumptions.

Revenue Recognition

The Company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, we perform the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) we satisfy a performance obligation. The five-step model is applied to contracts when it is probable that we will collect the consideration we are entitled to in exchange for the goods or services transferred to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, we assess the goods or services promised within each contract and determine those that are performance obligations and assess whether each promised good or service is distinct. We then recognize revenue in the amount of the transaction

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

Title and risk of loss generally pass to our customers upon shipment and therefore revenue is recognized at the time goods are shipped to the customers. In limited circumstances where either title or risk of loss pass upon destination, we defer revenue recognition until such events occur. We derive revenues from two primary sources: products and services. Product revenue includes the shipment of product according to the agreement with our customers for data storage products and power supplies. Services include customer support (technical support), installations, consulting, and design services. A contract may include both product and services. Rarely, contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices are typically estimated based on observable transactions when these services are sold on a standalone basis.

A variety of technical services can be contracted by our customers for a designated period of time. The service contracts allow customers to call Qualstar for technical support, replace defective parts and to have onsite service provided by Qualstar's third party contract service provider. We record revenue for contract services at the amount of the service contract, but such amount is deferred at the beginning of the service term and amortized ratably over the life of the contract.

Deferred service revenue is shown separately in the consolidated balance sheets as current and long term. At June 30, 2024 we had deferred service revenue of approximately \$1,075,000. At December 31, 2023 we had deferred service revenue of approximately \$1,144,000.

Cash and Cash Equivalents

Qualstar classifies as cash equivalents only cash and those investments that are highly liquid, interest-earning investments with original maturities of three months or less from the date of purchase.

Allowance for Credit Losses

The allowance for credit losses reflects our best estimate of probable losses inherent in the accounts receivable balance. We determine the allowance based on known troubled accounts, historical experience, and other currently available evidence.

Inventories

Inventories are stated at the lower of cost (first in, first out basis) or net realizable value. Cost includes materials, labor, and manufacturing overhead related to the purchase and production of inventories. We regularly review inventory quantities on hand, future purchase commitments with our suppliers, and the estimated utility of our inventory. If our review indicates a reduction in utility below carrying value, we reduce our inventory to a new cost basis.

Property and Equipment, net

Property and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation expense is computed using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the term of the lease. Estimated useful lives are as follows:

Machinery and equipment	5-7 years
Furniture and fixtures	5-7 years
Computer equipment	3-5 years
Leasehold improvements	Shorter of estimated useful life of the asset or the lease term

QUALSTAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Expenditures for normal maintenance and repairs are charged to expense as incurred, and improvements are capitalized. Upon the sale or retirement of property or equipment, the asset cost and related accumulated depreciation are removed from the respective accounts and any gain or loss is included in the results of operations.

Long-Lived Assets

Qualstar evaluates long-lived assets for potential impairment whenever events or changes in circumstances indicate the carrying amount of any asset may not be recoverable. An impairment loss would be recognized when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount. If impairment is indicated, the amount of the loss to be recorded is based upon an estimate of the difference between the carrying amount and the fair value of the asset. Fair value is based upon discounted cash flows expected to result from the use of the asset and its eventual disposition and other valuation methods. No impairment losses of long-lived assets were recognized during the periods presented.

Warranty Obligations

A provision for costs related to warranty expense is recorded when revenue is recognized, which is estimated based on historical warranty costs incurred.

We provide a three-year warranty on all Q-Series, XLS and RLS libraries. This includes replacement of components, or if necessary, complete libraries. XLS libraries sold in North America also include one year of on-site service. Customers may purchase on-site service if they are located in the United States and selected countries in Europe, Asia Pacific and Latin America. All customers may purchase extended warranty service coverage upon expiration of the standard warranty.

We provide a three-year warranty on all power supplies that includes repair or, if necessary, replacement of the power supply.

Shipping and Handling Costs

Qualstar includes all customer charges for outbound shipping and handling in revenue. All inbound and outbound shipping and fulfillment costs are included in cost of goods sold.

Engineering

All engineering costs are charged to expense as incurred. These costs consist primarily of engineering salaries, benefits, outside consultant fees, purchased parts and supplies directly involved in the design and development of new products, compliance testing, facilities costs and other internal costs.

Advertising

Advertising and promotion expenses include costs associated with direct and indirect marketing, trade shows and public relations. Qualstar expenses all costs of advertising and promotion as incurred.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash equivalents, marketable securities, accounts receivable, and accounts payable, approximate their fair values.

We determine fair value measurements based on assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, we follow the following fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) our own assumptions about market

QUALSTAR CORPORATION AND SUBSIDIARIES
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participant assumptions developed based on the best information available in the circumstances (unobservable inputs):

Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets;

Level 2: Other inputs observable directly or indirectly, such as quoted prices for similar assets or liabilities or market-corroborate inputs; and

Level 3: Unobservable inputs for which there is little or no market data and which requires the owner of the assets or liabilities to develop its own assumptions about how market participants would price these assets or liabilities.

Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy.

Our marketable securities consist of equity securities classified as available-for-sale and recorded at fair value, as determined using Level 1 inputs on the fair value hierarchy. Realized and unrealized gains and losses are reported in earnings within “other income (expense), net”. The specific identification method is used to determine realized gains and losses on available-for-sale securities.

Foreign Currency Translation

The functional currency for our subsidiaries in China and the United Kingdom is the United States dollar. However, our Chinese and United Kingdom subsidiaries also transact business in their local currency. Foreign currency transaction and remeasurement gains and losses are included in results of operations within “other income (expense), net”.

Share-Based Compensation

Share-based compensation cost is measured at the grant date based on fair value of the award and is recognized as expense over the applicable vesting period of the stock award using the straight-line method.

Income Taxes

Income taxes are accounted for using the liability method. Under this method, deferred tax liabilities and assets are recognized for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities, and for the expected future tax benefit to be derived from tax credits and loss carryforwards. Current income tax expense or benefit represents the amount of income taxes expected to be payable or refundable for the current year. A valuation allowance is established when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Leases

The Company accounts for its leases under ASC 842. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded on the consolidated balance sheet as both a right-of-use asset and lease liability, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company’s incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and the right-of-use asset is amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right-of-use asset result in straight-line rent expense over the lease term. For finance leases, interest on the lease liability and the amortization of the right-of-use asset results in front-loaded expense over the lease term. Variable lease expenses are recorded when incurred.

In calculating the right-of-use asset and lease liability, the Company has elected to combine lease and non-lease components. The Company excludes short-term leases having initial terms of 12 months or less as an accounting policy election and recognizes rent expense on a straight-line basis over the lease term.

QUALSTAR CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Operating Segments

The Company operates in two segments, Data Storage and Power Supplies. Operating segments are identified as functional groups within an enterprise for which discrete financial information is utilized by the chief operating decision maker in allocating resources and assessing performance. In the case of Qualstar, the chief operating decision maker is its President and Chief Executive Officer. This position maintains decision-making control over, and assesses the performance of, the two divisional levels of the Company.

Recent Accounting Guidance Not Yet Adopted

We reviewed all recently issued, but not yet effective, accounting pronouncements and concluded none are expected to be applicable or material to our consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events through August 13, 2024, being the date these consolidated financial statements were issued.

Note 2 – Balance Sheet Details

The following tables provide details of selected balance sheet accounts:

	June 30, 2024	December 31, 2023
Inventories	(In thousands)	
Raw materials	\$ 121	\$ 161
Finished goods	2,585	2,709
Inventories	\$ 2,706	\$ 2,870

	June 30, 2024	December 31, 2023
Property and equipment, net	(In thousands)	
Machinery and equipment	\$ 389	\$ 389
Furniture and fixtures, and computer equipment	258	258
Leasehold improvements	119	119
	766	766
Less accumulated depreciation and amortization	(733)	(714)
Property and equipment, net	\$ 33	\$ 52

Depreciation and amortization expense for each of the three months ended June 30, 2024 and 2023 was \$9,000.
Depreciation and amortization expense for each of the six months ended June 30, 2024 and 2023 was \$19,000.

	June 30, 2024	December 31, 2023
Accrued payroll and related liabilities	(In thousands)	
Accrued salaries, wages, and payroll taxes	\$ 16	\$ 26
Accrued vacation	82	113
Accrued payroll and related liabilities	\$ 98	\$ 139

QUALSTAR CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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	June 30, 2024	December 31, 2023
Other liabilities	(In thousands)	
Accrued warranty	\$ 15	\$ 36
Accrued outside commissions	45	84
Other accrued liabilities	2	10
Other liabilities	\$ 62	\$ 130

Note 3 – Shareholders’ Equity

Preferred Stock

The Company’s Articles of Incorporation allow for the issuance of up to 5,000,000 shares of preferred stock. The Board of Directors has authority to fix the rights, preferences, privileges and restrictions, including voting rights, of these shares of preferred stock without any vote or action by the shareholders. At June 30, 2024 and December 31, 2023, there were no outstanding shares of preferred stock.

Common Stock

The Company’s Articles of Incorporation allow for the issuance of up to 50,000,000 shares of common stock. At both June 30, 2024 and December 31, 2023, there were 1,447,122 shares of common stock outstanding.

Stock Repurchase Program

The Company’s board of directors has approved a stock repurchase program (the “Stock Repurchase Program”) to repurchase shares of the Company’s common stock. The Stock Repurchase Program (as updated and extended) permits the Company to repurchase up to a maximum of 500,000 shares of common stock. During the overall period of the Stock Repurchase Program from September 1, 2021 through June 30, 2024, the Company has repurchased 434,505 shares for an aggregate purchase price of \$1,127,000. During the three- and six-month periods ended June 30, 2024, the Company did not repurchase any shares. During the three- and six-month periods ended June 30, 2023, the Company repurchased 9,810 shares and 49,384 shares, respectively, for aggregate purchase prices of \$22,000 and \$126,000, respectively.

Note 4 – Earnings Per Share

Basic earnings per share has been computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted average number of diluted common shares, which is inclusive of common stock equivalents from unexercised stock options. Unexercised stock options are considered to be common stock equivalents if, using the treasury stock method, they are determined to be dilutive.

QUALSTAR CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following table sets forth the computation of basic and diluted earnings per share for the periods indicated (in thousands, except per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net loss	\$ (327)	\$ (277)	\$ (427)	\$ (290)
Weighted average outstanding shares of common stock - basic	1,447	1,585	1,447	1,603
Dilutive potential common shares from employee stock options	-	-	-	-
Weighted average outstanding shares of common stock - diluted	1,447	1,585	1,447	1,603
Earnings (loss) per share:				
Basic earnings (loss) per share	\$ (0.23)	\$ (0.17)	\$ (0.30)	\$ (0.18)
Diluted earnings (loss) per share	\$ (0.23)	\$ (0.17)	\$ (0.30)	\$ (0.18)

For the three months ended June 30, 2024 and 2023, respectively, 211,300 and 111,300 outstanding stock options were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive. For the six months ended June 30, 2024 and 2023, respectively, 211,300 and 111,300 outstanding stock options were excluded from the calculation of diluted earnings per share as their inclusion would have been anti-dilutive.

Note 5 – Stock Based Compensation

Stock Incentive Plan

The Company’s 2017 Stock Incentive Plan (the “2017 Plan”) permits the award of stock options (both incentive and non-qualified options), stock appreciation rights, restricted stock, restricted stock units, unrestricted stock, performance shares, dividend equivalent rights and cash-based awards to employees (including executive officers), directors and consultants of the Company and its subsidiaries. The 2017 Plan authorizes the issuance of an aggregate of 300,000 shares of common stock, of which 88,700 shares remain available for issuance as of June 30, 2024. The 2017 Plan is administered by the Compensation Committee of the Company’s Board of Directors.

With respect to options, the fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses various assumptions, such as volatility, expected term and risk-free interest rate. Expected volatilities are based on the historical volatility of the Company’s stock. The Company uses historical data to estimate option exercise and employee termination in determining forfeiture rates. The expected term of options granted is estimated based on the vesting term of the award, historical employee exercise behavior, expected volatility of the Company’s stock and an employee’s average length of service. The risk-free interest rate used in this model correlates to a U.S. constant rate Treasury security with a contractual life that approximates the expected term of the option award.

In February 2024, the Company granted an option to its Chief Executive Officer to purchase 100,000 shares of common stock at \$4.45 per share through February 13, 2034; the option vests 50% on January 31, 2025 and 50% on January 31, 2026. The grant date fair value of the option was \$371,000, which was determined based on the following Black-Scholes option valuation model assumptions: expected annual volatility 79%; expected term 10 years; risk-free rate 4.5%; expected dividend rate 0%; exercise price \$4.45; and stock price on grant date \$4.45. The grant date fair value of the option is recorded as stock-based compensation expense ratably over the 24-month vesting period, for which expense of approximately \$46,000 and \$77,000 was recorded in the three- and six-month periods ended June 30, 2024, respectively.

QUALSTAR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following table summarizes stock option activity:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2023	111,300	\$ 7.08	3.59	\$ -
Granted	100,000	4.45		
Exercised	-			
Forfeited, canceled or expired	-			
Outstanding at June 30, 2024	211,300	\$ 5.84	6.19	\$ 155,000
Exercisable at June 30, 2024	111,300	\$ 7.08	3.09	\$ -

Note 6 – Concentration of Credit Risk, Significant Customers, and Geographic Information

Our cash balances in our bank accounts may be in excess of FDIC insurance limits.

One customer individually accounted for more than 10% of the Company’s revenue for each of the three-month periods ended June 30, 2024 and 2023. The same customer also individually accounted for more than 10% of the Company’s revenue for each of the six-month periods ended June 30, 2024 and 2023.

Our financial results could be affected by changes in foreign currency exchange rates or weak economic conditions in foreign markets. As all sales are currently made in U.S. dollars, a strengthening of the dollar could make our products less competitive in foreign markets.

The following table summarizes revenue by geographic area (in thousands, except percentages):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024		2023		2024		2023	
North America	\$ 1,612	68.1 %	\$ 1,085	57.8 %	\$ 3,302	71.0 %	\$ 2,542	62.5 %
Europe	344	14.5	605	32.2	667	14.3	1,101	27.1
Asia Pacific	279	11.8	182	9.7	482	10.4	379	9.3
Other	131	5.5	6	0.3	202	4.3	48	1.2
	\$ 2,366	100.0 %	\$ 1,878	100.0 %	\$ 4,653	100.0 %	\$ 4,070	100.0 %

Note 7 – Commitments and Contingencies

Lease Agreements

The Company leases a 9,910 square-foot facility in Camarillo, California. The original term of this lease was for five years and three months expiring July 31, 2024. In February 2024, the Company extended the term of this lease through July 31, 2027. The rent on this facility is currently \$11,254 per month and will increase to \$12,983 per month as of August 2024, with a 3% step-up annually. Qualstar permits Interlink Electronics, Inc. (“Interlink”) to use a portion of the facility and is reimbursed for the space and other related expenses on a monthly basis. As described in Note 10, Interlink is a related party.

QUALSTAR CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

The Company leases a 1,400 square-foot storage facility in Camarillo, California. The Company renewed the lease through August 2025 and has the option to renew it for an additional year. The rent on this facility is currently \$1,850 per month.

The Company uses a portion of Interlink’s Irvine, California office as its corporate headquarters, pursuant to which the Company pays a facility usage fee of approximately \$1,600 per month. The Company also previously used a portion of Interlink’s Los Angeles, California office through August 2023, pursuant to which the Company paid a facility usage fee of approximately \$1,100 per month.

The Company leases a 560 square-foot office in Singapore on a month to month basis for approximately \$1,600 per month.

The Company previously leased a 7,287 square foot facility in Shenzhen, China for approximately \$3,500 per month under a lease that expired in May 2024.

The Company’s leases do not require any contingent rental payments, impose any financial restrictions, or contain any residual value guarantees. Variable expenses generally represent the Company’s share of the landlord’s operating expenses. The Company does not have any leases classified as financing leases.

The rate implicit in each lease is not readily determinable; we therefore use our incremental borrowing rate to determine the present value of the lease payments. The weighted average incremental borrowing rate used to determine the initial value of ROU assets and lease liabilities during the six months ended June 30, 2024 was 6.50%. No new ROU assets were capitalized during the six months ended June 30, 2023. Certain of our contracts for real estate may contain both lease and non-lease components which we have elected to treat as a single lease component.

Right-of-use assets for operating leases are periodically reduced by impairment losses. As of June 30, 2024, we have not recognized any impairment losses for our ROU assets.

We monitor for events or changes in circumstances that require a reassessment of our leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

At June 30, 2024, the Company had right-of-use assets of \$446,000 and current and long-term operating lease liabilities of \$131,000 and \$316,000, respectively. At December 31, 2023, the Company had right-of-use assets of \$88,000 and current operating lease liabilities of \$95,000. Future imputed interest as of June 30, 2024 totaled approximately \$46,000. The weighted average remaining lease term of the Company’s leases as of June 30, 2024 is approximately 3.1 years.

Future minimum lease payments under these leases are as follows, in thousands:

	Minimum Lease Payment
2024 (remainder of year)	\$ 76
2025	158
2026	163
2027	96
2028	-
Total undiscounted future non-cancelable minimum lease payments	493
Less: Imputed interest	(46)
Present value of lease liabilities	\$ 447

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

During the three months ended June 30, 2024 and 2023, the Company incurred approximately \$38,000 and \$42,000, respectively, of operating lease costs, which are included in operating expenses in our consolidated statement of operations. During each of the six months ended June 30, 2024 and 2023, the Company incurred approximately \$86,000 of operating lease costs, which are included in operating expenses in our consolidated statement of operations.

Legal and Other Contingencies

The Company is subject to a variety of claims and legal proceedings that arise from time to time in the ordinary course of our business. Although management currently believes that resolving claims against us, individually or in the aggregate, will not have a material adverse impact on our consolidated financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. An estimated loss from a loss contingency such as a legal proceeding or claim is accrued by a charge to income if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. When legal costs that the entity expects to incur in defending itself in connection with a loss contingency accrual are expected to be material, the loss should factor in all costs and, if the legal costs are reasonably estimable, they should be accrued in accordance with ASC 450, regardless of whether a liability can be estimated for the contingency itself. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. Changes in these factors could materially impact our consolidated financial statements. No loss contingency was recorded as of June 30, 2024.

Benefit Plan

The Company has a voluntary deferred compensation plan (the "Plan") qualifying for treatment under Internal Revenue Code Section 401(k). All employees are eligible to participate in the Plan following three months of service of employment and may contribute up to 100% of their compensation on a pre-tax basis, not to exceed the annual IRS maximum. The Company makes matching contributions in an amount equal to 50% of compensation contributed by participants, up to \$5,000 per participant per year. Qualstar made matching contributions of \$8,000 and \$6,000 during the three months ended June 30, 2024 and 2023. Qualstar made matching contributions of \$26,000 and \$18,000 during the six months ended June 30, 2024 and 2023.

Note 8 – Segment Information

In its operation of the business, management reviews certain financial information, including segmented internal profit and loss statements prepared on a basis consistent with GAAP. Our two segments are Data Storage and Power Supplies. The two segments discussed in this analysis are presented in the way we internally manage and monitor performance for 2024 and 2023. The types of products and services provided by each segment are summarized below:

Data Storage — We manufacture and market data storage systems, including highly scalable automated magnetic tape libraries used to store, retrieve and manage electronic data. Our tape-based storage solutions enable businesses to manage the massive growth of digital data assets in a cost-effective manner, and address long-term archive, backup and recovery of electronic data. These products consist of networked libraries that store and move high-density tape cartridges and high-speed tape drives that stream data to and from the tape cartridges. These optimized solutions allow data-rich and video-centric markets such as media and entertainment, oil and gas, surveillance, digital security and medical imaging to achieve targeted data workflows.

Power Supplies — We design and market high-efficiency switching power supplies. These power supplies are used to convert AC line voltage to DC voltages, or DC voltages to other DC voltages for use in a wide variety of electronic equipment such as communications equipment, industrial machine tools, wireless systems, as well as medical and gaming devices. We utilize contract manufacturers in Asia to produce our power supplies products. We sell our products globally through authorized resellers and directly to original equipment manufacturers.

QUALSTAR CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

Segment revenue, income (loss) before taxes, and total assets were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
(In thousands)				
Revenues				
Data Storage:				
Product	\$ 836	\$ 968	\$ 1,915	\$ 2,269
Service	289	301	558	565
Total Data Storage	1,125	1,269	2,473	2,834
Power Supplies	1,241	609	2,180	1,236
Revenues	\$ 2,366	\$ 1,878	\$ 4,653	\$ 4,070

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
(In thousands)				
Income (Loss) Before Taxes				
Data Storage	\$ (108)	\$ (53)	\$ (26)	\$ 112
Power Supplies	(219)	(224)	(401)	(402)
Income (loss) before taxes	\$ (327)	\$ (277)	\$ (427)	\$ (290)

	June 30,		December 31,	
	2024		2023	
	(In thousands)			
Total Assets				
Data Storage				
Cash and cash equivalents	\$ 2,362		\$ 2,211	
Marketable securities	131		140	
Accounts receivable, net	353		662	
Inventories	1,290		1,569	
Prepaid expenses and other current assets	263		316	
Property and equipment, net	27		45	
Right-of-use assets	446		88	
Other assets	50		51	
Total Data Storage assets	4,922		5,082	
Power Supplies				
Cash and cash equivalents	65		64	
Accounts receivable, net	560		1,512	
Inventories	1,416		1,301	
Prepaid expenses and other current assets	16		27	
Property and equipment, net	6		7	
Other assets	37		38	
Total Power Supplies assets	2,100		2,949	
Total Assets	\$ 7,022		\$ 8,031	

QUALSTAR CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

Note 10 – Related Party Transactions

Interlink Electronics, Inc.

Interlink Electronics, Inc. (Nasdaq: LINK) is a related party. Steven N. Bronson, our President and Chief Executive Officer and Director, is also Chairman of the Board, President and Chief Executive Officer of Interlink. Ryan J. Hoffman, our Acting Chief Financial Officer, is also the Chief Financial Officer of Interlink. Mr. Bronson, together with BKF Capital Group, Inc. (OTCMKTS: BKFG) (“BKF Capital”) which he controls, has a controlling interest in both Qualstar and Interlink. We have a facilities agreement with Interlink to allow Interlink to use of a portion of our Camarillo, California office and warehouse facility, for which we have agreed to split substantially all rent and facilities-related costs on an apportioned basis according to the approximate relative usage levels by each entity. We also have facilities agreements with Interlink to allow us to use of a portion of Interlink’s office facility in Irvine, California, and also its prior Los Angeles, California office facility for March 2022 through August 2023, for which we have agreed to split substantially all rent and facilities-related costs on an apportioned basis according to the approximate relative usage levels by each entity. In addition, we have consulting agreements with Interlink for certain of our respective employees and/or independent contractors that provide certain operational, sales, marketing, general and administrative services to the other entity. Qualstar and Interlink have also agreed to reimburse, or be reimbursed by, one another for certain expenses paid by one company on behalf of the other. Transactions with Interlink are as follows:

	Three Months Ended June 30,			
	2024		2023	
	Due to Interlink	Due from Interlink	Due to Interlink	Due from Interlink
	(in thousands)			
Balance at April 1,	\$ 13	\$ 25	\$ 21	\$ -
Billed (or accrued) to Interlink by Qualstar	-	37	-	31
Paid by Interlink to Qualstar	-	(51)	-	(22)
Billed (or accrued) to Qualstar by Interlink	104	-	209	-
Paid by Qualstar to Interlink	(101)	-	(144)	-
Balance at June 30,	<u>\$ 16</u>	<u>\$ 11</u>	<u>\$ 86</u>	<u>\$ 9</u>
	Six Months Ended June 30,			
	2024		2023	
	Due to Interlink	Due from Interlink	Due to Interlink	Due from Interlink
	(in thousands)			
Balance at January 1,	\$ 2	\$ 32	\$ 6	\$ -
Billed (or accrued) to Interlink by Qualstar	-	73	-	56
Paid by Interlink to Qualstar	-	(94)	-	(47)
Billed (or accrued) to Qualstar by Interlink	180	-	434	-
Paid by Qualstar to Interlink	(166)	-	(354)	-
Balance at June 30,	<u>\$ 16</u>	<u>\$ 11</u>	<u>\$ 86</u>	<u>\$ 9</u>

BKF Capital Group, Inc.

BKF Capital Group, Inc. (OTCMKTS: BKFG) is a related party. Steven N. Bronson, our President and Chief Executive Officer and Director, is also the Chief Executive Officer and Chairman of the Board of BKF Capital. Ryan J. Hoffman, our Acting Chief Financial Officer, is also the Chief Financial Officer of BKF Capital. BKF Capital, together with Mr. Bronson, has a controlling interest in Qualstar. We have consulting agreements with BKF Capital for certain of our respective employees and/or independent contractors that provide operational and general and administrative services to

QUALSTAR CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

the other entity. Until its termination in April 2024, we were party to an agreement with Bronson Financial LLC (“BF”), a wholly owned subsidiary of BKF Capital, under which BF provided M&A advisory consulting services to us. Qualstar and BKF Capital have also agreed to reimburse, or be reimbursed by, one another for certain expenses paid by one company on behalf of the other. Transactions with BKF Capital are as follows:

	Three Months Ended June 30,			
	2024		2023	
	Due to BKF Capital	Due from BKF Capital	Due to BKF Capital	Due from BKF Capital
	(in thousands)			
Balance at April 1,	\$ -	\$ -	\$ -	\$ -
Billed (or accrued) to BKF Capital by Qualstar	-	-	-	-
Paid by BKF Capital to Qualstar	-	-	-	-
Billed (or accrued) to Qualstar by BKF Capital	10	-	-	-
Paid by Qualstar to BKF Capital	(10)	-	-	-
Balance at June 30,	\$ -	\$ -	\$ -	\$ -

	Six Months Ended June 30,			
	2024		2023	
	Due to BKF Capital	Due from BKF Capital	Due to BKF Capital	Due from BKF Capital
	(in thousands)			
Balance at January 1,	\$ -	\$ -	\$ -	\$ -
Billed (or accrued) to BKF Capital by Qualstar	-	-	-	-
Paid by BKF Capital to Qualstar	-	-	-	-
Billed (or accrued) to Qualstar by BKF Capital	40	-	53	-
Paid by Qualstar to BKF Capital	(40)	-	(53)	-
Balance at June 30,	\$ -	\$ -	\$ -	\$ -

Ridgefield Acquisition Corp.

Ridgefield Acquisition Corp. (Nasdaq: RDGA) (“Ridgefield”) is a related party. Steven N. Bronson, our President and Chief Executive Officer and Director, is also the Chief Executive Officer and Chairman of the Board of Ridgefield as well as Ridgefield’s largest shareholder. In September 2022, the Company executed an unsecured Revolving Promissory Note with Ridgefield (the “Ridgefield Note”). Under the terms of the Ridgefield Note, the Company may (but is not required to) make loans to Ridgefield from time to time upon request by Ridgefield, up to a maximum principal amount of \$200,000 outstanding at any time. The Ridgefield Note may be prepaid by Ridgefield at any time without penalty and is repayable on demand by the Company on or after December 31, 2024. The Ridgefield Note provides for interest to accrue on the outstanding principal balance at a rate of ten percent per annum (calculated on the basis of a 360-day year), compounded and payable quarterly. Ridgefield borrowed an initial amount of \$20,000 under the Ridgefield Note in September 2022, and additional amounts of \$30,000 in December 2022, \$25,000 in June 2023, \$25,000 in December 2023, and \$10,000 in April 2024. The balance of principal and accrued interest on the Ridgefield Note was \$124,000 as of June 30, 2024, and \$108,000 as of December 31, 2023 (classified in Prepaid Expenses and Other Current Assets on our consolidated balance sheets).

QUALSTAR CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Qualstar Corporation and its Subsidiaries (“Qualstar”, the “Company”, “we”, “us” or “our”) manufacture and market data storage system products and compact, high efficiency power solutions. Our data storage systems are marketed under the Qualstar brand and include highly scalable automated magnetic tape libraries used to store, retrieve and manage electronic data primarily in the network computing environment. Our data storage devices include models ranging from entry level to enterprise and are a cost-effective solution for organizations requiring backup, recovery and archival storage of critical electronic information. The distribution channels for our data storage devices include resellers, system integrators, and original equipment manufacturers (“OEMs”). In addition, the Company is a leading provider of standard, semi-custom and custom power solutions marketed under the N2Power brand. Our power solution products provide OEMs and product-designers increased functionality while reducing thermal loads and cooling requirements and lowering operating costs. Our power solution products are currently sold to OEMs in a wide range of markets, including telecom/networking equipment, audio/visual, industrial, gaming and medical.

Qualstar Corporation was incorporated in California in 1984 and currently has three wholly owned subsidiaries. The N2Power, Inc. subsidiary (“N2Power”) operates the Company’s power supplies business. The Q-Smart Data Limited (China) subsidiary pursues new data storage business opportunities in Asia. The Qualstar Limited (U.K.) subsidiary expands the Company’s data storage business in Europe and Africa.

We sell our products globally through authorized resellers and distributors and directly to OEMs. Our data storage products are manufactured by our OEM suppliers in other parts of the world and configured to order by us at our facility in Camarillo, California, or at our facility in Shenzhen, China, or by our fulfilment and logistics partner in Warsaw, Poland. N2Power utilizes contract manufacturers in Asia to produce our power solutions products.

Results of Operations

The dollar amounts in the following tables are in thousands.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024		2023		2024		2023	
	Amount	Revenue s	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Data storage revenues	\$ 1,125	47.5 %	\$ 1,269	67.6 %	\$ 2,473	53.1 %	\$ 2,834	69.6 %
Power supplies revenues	1,241	52.5	609	32.4	2,180	46.9	1,236	30.4
Revenues	2,366	100.0	1,878	100.0	4,653	100.0	4,070	100.0
Cost of goods sold	1,843	77.9	1,446	77.0	3,430	73.7	2,984	73.3
Gross profit	523	22.1	432	23.0	1,223	26.3	1,086	26.7
Operating expenses:								
Engineering	105	4.4	55	2.9	248	5.3	126	3.1
Sales and marketing	271	11.5	293	15.6	620	13.3	597	14.7
General and administrative	439	18.6	355	18.9	843	18.1	691	17.0
Total operating expenses	815	34.4	703	37.4	1,711	36.8	1,414	34.7
Loss from operations	(292)	(12.3)	(271)	(14.4)	(488)	(10.5)	(328)	(8.1)
Other income (expense), net	(35)	(1.5)	(6)	(0.3)	61	1.3	38	0.9
Loss before taxes	(327)	(13.8)	(277)	(14.7)	(427)	(9.2)	(290)	(7.1)
Provision for income taxes	-	-	-	-	-	-	-	-
Net loss	\$ (327)	(13.8) %	\$ (277)	(14.7) %	\$ (427)	(9.2) %	\$ (290)	(7.1) %

QUALSTAR CORPORATION AND SUBSIDIARIES

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Revenues:

	Three months ended June 30,				Change	
	2024		2023			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Data storage revenues	\$ 1,125	47.5 %	\$ 1,269	67.6 %	\$ (144)	(11.3) %
Power supplies revenues	1,241	52.5	609	32.4	632	103.8
Revenues	\$ 2,366	100.0 %	\$ 1,878	100.0 %	\$ 488	26.0 %

	Six months ended June 30,				Change	
	2024		2023			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Data storage revenues	\$ 2,473	53.1 %	\$ 2,834	69.6 %	\$ (361)	(12.7) %
Power supplies revenues	2,180	46.9	1,236	30.4	944	76.4
Revenues	\$ 4,653	100.0 %	\$ 4,070	100.0 %	\$ 583	14.3 %

The fluctuations in revenues for the three- and six-month periods ended June 30, 2024 compared to the prior year periods is attributable to the segment-specific factors described below.

Segment Revenue

Data Storage – For the three months ended June 30, 2024 compared to the same quarter last year, data storage revenues were down 11%, which was attributable to a 14% reduction in product revenue from lower shipments of our tape-based data storage products and solutions, together with a 4% decrease in revenues from technical service and support contracts. For the six months ended June 30, 2024 compared to the same period last year, data storage revenues were down 13%, which was attributable to a 16% reduction in product revenue and a 1% decrease in services revenues.

Power Supplies – The 104% and 76% increases in power supplies revenues in the three- and six-month periods ended June 30, 2024, respectively, compared to the corresponding prior-year periods was due to increased customer demand and order fulfillment of our power supplies products in the current year periods.

Gross Profit:

	Three months ended June 30,				Change	
	2024		2023			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Gross profit	\$ 523	22.1 %	\$ 432	23.0 %	\$ 91	21.1 %

	Six months ended June 30,				Change	
	2024		2023			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Gross profit	\$ 1,223	26.3 %	\$ 1,086	26.7 %	\$ 137	12.6 %

The increases in gross profit for the three- and six-month periods ended June 30, 2024 compared to the corresponding periods in the prior year are due to increases in sales volume, while the slight decreases in gross margin over those same periods are attributable to changes in customer mix and product mix.

QUALSTAR CORPORATION AND SUBSIDIARIES

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Operating Expenses:

	Three months ended June 30,				Change	
	2024		2023			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Engineering	\$ 105	4.4 %	\$ 55	2.9 %	\$ 50	90.9 %
Sales and marketing	271	11.5	293	15.6	(22)	(7.5)
General and administrative	439	18.6	355	18.9	84	23.7
Total operating expenses	<u>\$ 815</u>	<u>34.4 %</u>	<u>\$ 703</u>	<u>37.4 %</u>	<u>\$ 112</u>	<u>15.9 %</u>

	Six months ended June 30,				Change	
	2024		2023			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Engineering	\$ 248	5.3 %	\$ 126	3.1 %	\$ 122	96.8 %
Sales and marketing	620	13.3	597	14.7	23	3.9
General and administrative	843	18.1	691	17.0	152	22.0
Total operating expenses	<u>\$ 1,711</u>	<u>36.8 %</u>	<u>\$ 1,414</u>	<u>34.7 %</u>	<u>\$ 297</u>	<u>21.0 %</u>

Engineering

Engineering expenses increased for the three- and six-month periods ended June 30, 2024 compared to the prior year periods primarily due to an increase in the number of power supplies consultant engineering resources and increased power supplies compliance testing costs.

Sales and Marketing

Sales and marketing expenses decreased slightly for the three months ended June 30, 2024 compared to the same quarter last year due to lower compensation expense on reduced sales employee headcount, offset by increased sales commissions on higher power supplies sales. Sales and marketing expenses increased marginally for the six months ended June 30, 2024 compared to the prior year primarily due to increased sales commissions on higher power supplies sales, and increased costs incurred on trade shows and other promotional activity.

General and Administrative

General and administrative costs increased for the three- and six-month periods ended June 30, 2024 compared to the prior year periods primarily due to increased compensation and related costs, professional services costs, and facilities costs.

Other Income (Expense), net

Other income (expense), net for the three months ended June 30, 2024 includes \$18,000 of interest income, offset by \$45,000 of losses on marketable securities and \$8,000 of losses on foreign currency exchange. Other income (expense) for the three months ended June 30, 2023 includes \$2,000 of interest income, offset by \$4,000 of losses on marketable securities, and \$4,000 of losses on foreign currency exchange.

Other income (expense), net for the six months ended June 30, 2024 includes \$35,000 of interest income and \$40,000 of gains on marketable securities, offset by \$14,000 of losses on foreign currency exchange. Other income (expense) for the six months ended June 30, 2023 includes \$4,000 of interest income, \$26,000 of gains on marketable securities, and \$8,000 of gains on foreign currency exchange.

Liquidity and Capital Resources

Cash and cash equivalents increased \$152,000 to \$2,427,000 at June 30, 2024 from \$2,275,000 at December 31, 2023.

Operating Activities

Net cash provided by operating activities was \$103,000 for the six months ended June 30, 2024 compared with

QUALSTAR CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

\$137,000 of net cash used in operating activities for the six months ended June 30, 2023. Cash provided by operations in 2024 was the result of net loss of \$427,000, non-cash expenses of \$90,000, gains on marketable securities of \$40,000, and cash provided by changes in operating assets and liabilities of \$480,000. Cash used in operations for the six months ended June 30, 2023 was the result of net loss of \$290,000, non-cash expenses of \$16,000, gains on marketable securities of \$26,000, and cash provided by changes in operating assets and liabilities of \$163,000.

Investing Activities

Cash provided by investing activities for the six months ended June 30, 2024 consisted of \$49,000 of proceeds from net sales of marketable securities. Cash used in investing activities for the six months ended June 30, 2023 consisted of \$103,000 of net purchases of marketable securities.

Financing Activities

No cash was used in financing activities for the six months ended June 30, 2024. Cash used in financing activities for the six months ended June 30, 2023 consisted of \$126,000 of cash used to repurchase shares of the Company's common stock under the Company's Stock Repurchase Program.

We believe that our existing cash and cash equivalents and cash flows from our operating activities will be sufficient to fund our working capital and capital expenditure needs for at least twelve months from the date of this report. We may utilize cash to invest in or acquire businesses, products or technologies that we believe are additive to the strategic expansion of the Company. We periodically evaluate other companies and technologies for possible investment or acquisition. In addition, we have made, and may in the future make, investments in companies with whom we have identified potential synergies. However, we have no present commitments or agreements with respect to any material investment in or acquisition of other businesses or technologies. In the event that we require additional capital to meet our business needs, there can be no assurance that additional funding will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms.