QUALSTAR CORP
Form 10-Q
January 31, 2012
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended December 31, 2011

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

| | |
|---|---|
| CALIFORNIA<br>(State of incorporation) | 95-3927330<br>(I.R.S. Employer Identification No.) |

3990-B Heritage Oak Court, Simi Valley, CA 93063
(805) 583-7744

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer ¨ Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No þ

Total shares of common stock without par value outstanding at December 31, 2011 is 12,253,117.

QUALSTAR CORPORATION
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2011
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUALSTAR CORPORATION
CONDENSED BALANCE SHEETS
(In thousands)

| | December 31, 2011 (Unaudited) | June 30, 2011 (Audited) |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,786 | $ 4,970 |
| Marketable securities, short-term | 7,631 | 10,713 |
| Receivables, net of allowances of $154 at December 31, 2011, and $180 at June 30, 2011 | 2,834 | 3,005 |
| Inventories, net | 6,256 | 5,673 |
| Prepaid expenses and other current assets | 212 | 312 |
| Total current assets | 21,719 | 24,673 |
| Property and equipment, net | 181 | 232 |
| Marketable securities, long-term | 8,947 | 6,981 |
| Other assets | 51 | 49 |
| Total assets | $ 30,898 | $ 31,935 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 1,241 | $ 1,293 |
| Accrued payroll and related liabilities | 313 | 495 |
| Other accrued liabilities | 1,099 | 945 |
| Total current liabilities | 2,653 | 2,733 |
| | | |
| Other long term liabilities | 22 | 22 |
| | | |
| Commitments and contingencies: | | |
| | | |
| Shareholders' equity: | | |
| Preferred stock, no par value; 5,000 shares authorized; no shares issued | — | — |
| Common stock, no par value; 50,000 shares authorized, 12,253 shares issued and outstanding as of December 31, 2011 and June 30, 2011 | 18,873 | 18,869 |
| Accumulated other comprehensive income | (9) | 38 |
| Retained earnings | 9,359 | 10,273 |
| Total shareholders' equity | 28,223 | 29,180 |
| Total liabilities and shareholders' equity | $ 30,898 | $ 31,935 |

See notes to condensed financial statements.

QUALSTAR CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands, except per share data)

| | Three Months Ended December 31, 2011 | Three Months Ended December 31, 2010 | Six Months Ended December 31, 2011 | Six Months Ended December 31, 2010 |
|---|---|---|---|---|
| Net revenues | $ 3,555 | $ 4,107 | $ 8,179 | $ 9,348 |
| Cost of goods sold | 2,728 | 2,490 | 5,638 | 5,619 |
| Gross profit | 827 | 1,617 | 2,541 | 3,729 |
| Operating expenses: | | | | |
| Research and development | 650 | 725 | 1,298 | 1,432 |
| Sales and marketing | 448 | 581 | 909 | 1,217 |
| General and administrative | 741 | 650 | 1,333 | 1,299 |
| Total operating expenses | 1,839 | 1,956 | 3,540 | 3,948 |
| Loss from operations | (1,012) | (339) | (999) | (219) |
| Investment income | 41 | 43 | 85 | 90 |
| Loss before income taxes | (971) | (296) | (914) | (129) |
| Provision for income taxes | - | - | - | - |
| Net loss | $ (971) | $ (296) | $ (914) | $ (129) |
| Loss per common share: | | | | |
| Basic and Diluted | $ (0.08) | $ (0.02) | $ (0.07) | $ (0.01) |
| Weighted average common shares outstanding: | | | | |
| Basic and Diluted | 12,253 | 12,253 | 12,253 | 12,253 |

See notes to condensed financial statements.

QUALSTAR CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

| | Six Months Ended December 31, 2011 | Six Months Ended December 31, 2010 |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Net loss | $ (914) | $ (129) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 51 | 81 |
| Provision for bad debts and returns, net | 121 | 83 |
| Provision for (recovery of) inventory reserve and adjustments | 82 | (11) |
| Stock based compensation | 4 | 12 |
| Loss on sale of marketable securities | 38 | 5 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 50 | (70) |
| Inventories | (665) | (1,025) |
| Prepaid expenses and other assets | 99 | (24) |
| Accounts payable | (52) | (105) |
| Accrued payroll and related liabilities | (182) | (224) |
| Other accrued liabilities | 153 | (11) |
| Net cash used in operating activities | (1,215) | (1,418) |
| | | |
| INVESTING ACTIVITIES: | | |
| Purchases of equipment | - | (38) |
| Purchases of marketable securities | (9,656) | (6,536) |
| Proceeds from the sale of marketable securities | 10,687 | 7,130 |
| Net cash provided by investing activities | 1,031 | 556 |
| | | |
| FINANCING ACTIVITIES: | | |
| Net cash used in financing activities | - | - |
| | | |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (184) | (862) |
| | | |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 4,970 | 2,234 |
| | | |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 4,786 | $ 1,372 |
| | | |
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | |
| Income taxes paid | $ 4 | $ 9 |

See notes to condensed financial statements.

QUALSTAR CORPORATION
CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED DECEMBER 31, 2011
(Unaudited) (In thousands)

| | Common Stock | | Accumulated Other Comprehensive | Retained | |
|---|---|---|---|---|---|
| | Shares | Amount | Income (Loss) | Earnings | Total |
| Balance at June 30, 2011 | 12,253 | $18,869 | $38 | $10,273 | $29,180 |
| Share-based compensation | — | 4 | — | — | 4 |
| Comprehensive loss: | | | | | |
| Change in unrealized gains on investments | | | (47) | | (47) |
| Net loss | — | — | — | (914) | (914) |
| Comprehensive loss | — | — | — | — | (961) |
| Balance at December 31, 2011 | 12,253 | $18,873 | $(9) | $9,359 | $28,223 |

See notes to condensed financial statements

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QUALSTAR CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation

In the opinion of management, the accompanying condensed financial statements, including balance sheets and related interim statements of operations, cash flows, and stockholders' equity, include all adjustments, consisting primarily of normal recurring items, which are necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Preparing financial statements 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, bad debts, sales returns, share based compensation forfeiture rates, the potential outcome of future tax consequences of events that have been recognized in our 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.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Qualstar Corporation Annual Report on Form 10-K for the fiscal year ended June 30, 2011, filed with the Securities and Exchange Commission ("SEC") on August 31, 2011.

Risks and Uncertainties

We are subject to a number of risks and uncertainties that may significantly impact our future operating results. These risks and uncertainties are discussed under Part II, Item 1A, "Risk Factors" included in this Form 10-Q. As our interim description of risks and uncertainties only includes any material changes to our annual description, we refer you to our risk factors previously disclosed in Item 1A of our annual report on Form 10-K for the fiscal year ended June 30, 2011, as filed with the U.S. Securities and Exchange Commission ("SEC").

Revenue Recognition

We recognize revenue when there is persuasive evidence that an arrangement exists, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon shipment. In limited circumstances where either title or risk of loss pass upon destination or acceptance or when collection is not reasonably assured, we defer revenue recognition until such events occur.

Revenue for established products that have previously satisfied a customer's acceptance requirements and provide for full payment tied to shipment is generally recognized upon shipment and passage of title. In limited cases where a prior history of customer acceptance cannot be demonstrated or sales where customer payment dates are not determinable or when collection is not reasonably assured, revenue is deferred until customer acceptance occurs or payment has been received. On the limited shipments where sales are not recognized, gross profit is generally recorded as deferred profit in our consolidated balance sheet representing the difference between the receivable recorded and the inventory shipped. At December 31, 2011 we had deferred revenue of approximately $164,000 and deferred profit of approximately $61,000.  At June 30, 2011 we had deferred revenue of approximately $65,000 and no deferred profit.

QUALSTAR CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS- (Continued)

Note 2 – Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

On July 1, 2011, we adopted guidance issued by the Financial Accounting Standards Board ("FASB") on disclosure requirements related to fair value measurements. The guidance requires the disclosure of roll-forward activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). Adoption of this new guidance did not have a material impact on our financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In September 2011, the FASB issued ASU 2011-08, guidance on testing goodwill for impairment. The new guidance permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The new guidance will be effective for us beginning July 1, 2012, and will not impact our financial statements.

In June 2011, the FASB issued ASU 2011-05 guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. The new guidance will be effective for us beginning July 1, 2012 and will have presentation changes only.

In May 2011, the FASB issued ASU 2011-04 guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance will be effective for us beginning January 1, 2012. Other than requiring additional disclosures, we do not anticipate material impacts on our financial statements upon adoption.

Note 3 – Concentration of Credit Risk, Other Concentration Risks and Significant Customers

We are exposed to interest rate risks. Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in shorter duration fixed income securities. We have no outstanding debt nor do we utilize auction rate securities or derivative financial instruments in our investment portfolio.

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. Sales outside of North America represented approximately 40.9% of net revenues in the three months ended December 31, 2011, and 32.2% of net revenues in the three months ended December 31,

2010. Sales outside of North America represented approximately 43.4% of net revenues in the six months ended December 31, 2011, and 32.6% of net revenues in the three months ended December 31, 2010.

One customer accounted for 11.6% of the Company's revenue for the three-month period ended December 31, 2011. The customer's accounts receivable balance, net of specific allowances, totaled approximately 10.1% of net accounts receivable as of December 31, 2011. One customer accounted for 21.5% of the Company's revenue for the three-month period ended December 31, 2010. The customer's accounts receivable balance, net of specific allowances, totaled approximately 28.5% of net accounts receivable as of December 31, 2010.

QUALSTAR CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS- (Continued)

One customer accounted for 11.1% of the Company's revenue for the six-month period ended December 31, 2011. The customer's accounts receivable balance, net of specific allowances, totaled approximately 10.1% of net accounts receivable as of December 31, 2011. Two customers accounted for 20.0% and 10.4%, respectively, of the Company's revenue for the six-month period ended December 31, 2010. The customers' accounts receivable balances, net of specific allowances, totaled approximately 28.5% and 4.1%, respectively, of net accounts receivable as of December 31, 2010.

Note 4 – Loss Per Share

Basic loss per share has been computed by dividing net loss by the weighted average number of common shares outstanding. Diluted loss per share has been computed by dividing net loss by the weighted average common shares outstanding plus dilutive securities or other contracts to issue common stock as if these securities were exercised or converted to common stock.

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated:

| In thousands (except per share amounts): | Three Months Ended December 31, 2011 | 2010 | Six Months Ended December 31, 2011 | 2010 |
|---|---|---|---|---|
| Net loss (a) | $ (971) | $ (296) | $ (914) | $ (129) |
| Weighted average outstanding shares of common stock (b) | 12,253 | 12,253 | 12,253 | 12,253 |
| Dilutive potential common shares from employee stock options | — | — | — | — |
| Common stock and common stock equivalents (c) | 12,253 | 12,253 | 12,253 | 12,253 |
| Loss per share: | | | | |
| Basic net loss per share (a)/(b) | $ (0.08) | $ (0.02) | $ (0.07) | $ (0.01) |
| Diluted net loss per share (a)/(c) | $ (0.08) | $ (0.02) | $ (0.07) | $ (0.01) |

Note 5 – Fair Value Measurements

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

QUALSTAR CORPORATION

NOTES TO CONDENSED FINANCIAL STATEMENTS- (Continued)

Note 6 – Cash, Cash Equivalents and Marketable Securities

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. The Company's marketable debt securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the available-for-sale designations as of each balance sheet date. The Company classifies its marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Marketable debt securities with maturities of 12 months or less are classified as short-term and marketable debt securities with maturities greater than 12 months are classified as long-term.

The following tables summarize the Company's available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short-term or long-term marketable securities as of December 31, 2011 and June 30, 2011 (in thousands):

| | December 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash & Cash Equivalents | Short-term Marketable Securities | Long-term Marketable Securities |
| Level 1: | | | | | | | |
| Cash | 1,379 | - | - | 1,379 | 1,379 | - | - |
| Money Market Funds | 3,407 | - | - | 3,407 | 3,407 | - | - |
| U.S. Treasury Securities | 1,321 | 3 | - | 1,324 | - | 1,002 | 322 |
| Subtotal | $ 6,107 | $ 3 | $ - | $ 6,110 | $ 4,786 | $ 1,002 | $ 322 |
| Level 2: | | | | | | | |
| U.S. Agency Securities | 3,543 | 6 | - | 3,549 | - | 3,549 | - |
| Corporate securities | 2,757 | 2 | (3 ) | 2,756 | - | 975 | - |
| Municipal securities | 2,990 | 3 | (2 ) | 2,991 | - | 923 | - |
| Asset backed securities | 2,477 | - | (1 ) | 2,476 | - | 944 | 1,532 |
| Mortgage backed securities | 3,499 | - | (17 ) | 3,482 | - | 238 | 3,244 |
| Subtotal | $ 15,266 | $ 11 | $ (23 ) | $ 15,254 | $ - | $ 6,629 | $ 8,625 |
| Total | $ 21,373 | $ 14 | $ (23 ) | $ 21,364 | $ 4,786 | $ 7,631 | $ 8,947 |

QUALSTAR CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS- (Continued)

| | June 30, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Adjusted Cost | Unrealized Gains | Unrealized Losses | Fair Value | Cash & Cash Equivalents | Short-term Marketable Securities | Long-term Marketable Securities |
| Level 1: | | | | | | | |
| Cash | 865 | - | - | 865 | 865 | - | - |
| Money Market Funds | 4,105 | - | - | 4,105 | 4,105 | - | - |
| U.S. Treasury Securities | 2,541 | 8 | - | 2,549 | - | 2,409 | 140 |
| Subtotal | $ 7,511 | $ 8 | - | $ 7,519 | $ 4,970 | $ 2,409 | 140 |
| Level 2: | | | | | - | | |
| U.S. Agency Securities | 6,143 | 13 | - | 6,156 | - | 5,394 | 762 |
| Corporate securities | 3,181 | 5 | - | 3,186 | - | 2,256 | 930 |
| Asset backed securities | 2,964 | 6 | - | 2,970 | - | 467 | 2,503 |
| Mortgage backed securities | 2,826 | 8 | (1) | 2,833 | - | 187 | 2,646 |
| Subtotal | $ 15,114 | $ 32 | $ (1) | $ 15,145 | - | $ 8,304 | $ 6,841 |
| Total | $ 22,625 | $ 40 | $ (1) | $ 22,664 | $ 4,970 | $ 10,713 | $ 6,981 |

There were unrealized loss positions as of December 31, 2011. The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2011 and at June 30, 2011 (in thousands):

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2011 | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Corporate securities | 975 | (3) | 1,781 | — | 2,756 | (3) |
| Municipal securities | 922 | — | 2,069 | (2) | 2,991 | (2) |
| Asset backed securities | 943 | — | 1,533 | (1) | 2,476 | (1) |
| Mortgage backed securities | 238 | — | 3,244 | (17) | 3,482 | (17) |
| Total | $ 3,078 | $ (3) | $ 8,627 | $ (20) | $ 11,705 | $ (23) |

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| June 30, 2011 | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Mortgage backed securities | 187 | (1) | 2,646 | — | 2,833 | (1) |
| Total | $ 187 | $ (1) | $ 2,646 | $ — | $ 2,833 | $ (1) |

QUALSTAR CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS- (Continued)

Available-for-sale securities are recorded at market value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Dividend and interest income are recognized when earned. Realized gains and losses for securities classified as available-for-sale are included in earnings when the underlying securities are sold and are derived using the specific identification method for determining the cost of securities sold. Loss on the sale of marketable securities for the three months ended December 31, 2011 and 2010 was $21,000 and $3,000, respectively. Loss on the sale of marketable securities for the six months ended December 31, 2011 and 2010 was $38,000 and $5,000, respectively. The change in net unrealized gain on available-for-sale securities that has been included in the other comprehensive income of shareholder's equity during the six months ended December 31, 2011 was $(47,000). There was no change in net unrealized gain on available-for-sale securities that has been included in the other comprehensive income of shareholder's equity during the six months ended December 31, 2010.

Note 7 - Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market. Inventories are comprised as follows (in thousands):

| | December 31, 2011 | June 30, 2011 |
|---|---|---|
| Raw materials | $ 4,397 | $ 4,312 |
| Finished goods | 2,322 | 1,804 |
| Subtotal | 6,719 | 6,116 |
| Less: Inventory reserve | (464) | (443) |
| Net inventory balance | $ 6,255 | $ 5,673 |

Note 8 – Warranty Obligations

We provide for the estimated costs of hardware warranties at the time the related revenue is recognized. We estimate the costs based on historical and projected product failure rates, historical and projected repair costs, and knowledge of specific product failures (if any). The specific hardware warranty terms and conditions for tape libraries generally include parts and labor over a three-year period. The warranty for power supplies generally is three years. We regularly re-evaluate our estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Activity in the liability for product warranty for the periods presented is as follows (in thousands):

| | Six Months Ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Beginning balance | $ 198 | $ 156 |
| Cost of warranty claims | (39) | (31) |
| Accruals for product warranties | 39 | 35 |
| Ending balance | $ 198 | $ 160 |

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QUALSTAR CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS- (Continued)

Note 9 – Comprehensive Loss

For the six months ended December 31, 2011 and 2010, comprehensive loss amounted to approximately $961,000 and $129,000, respectively. The difference between net loss and comprehensive loss relates to the changes in the unrealized losses or gains the Company recorded for its available-for-sale marketable securities.

Note 10 – Legal Proceedings

We are from time to time involved in various lawsuits and legal proceedings that arise in the ordinary course of business. At this time, we are not aware of any pending or threatened litigation against us that we expect will have a material adverse effect on our business, financial condition, and liquidity or operating results. Legal claims are inherently uncertain, however, and it is possible that the Company's business, financial condition, liquidity and/or operating results could be adversely affected in the future by legal proceedings.

Note 11 – Income Taxes

We did not record a provision or benefit for income taxes for the six months ended December 31, 2011 and 2010. The Company has recorded a full valuation allowance against its net deferred tax assets based on the Company's assessment regarding the realizability of these net deferred tax assets in future periods.

Note 12 – 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 U.S. GAAP. Our two segments are Tape Libraries and Power Supplies. The two segments discussed in this analysis are presented in the way we internally managed and monitored performance for the six months ended December 31, 2011 and 2010. Allocations for internal resources were made for the six months ended December 30, 2011 and 2010. The power supplies segment tracks certain assets separately, and all others are recorded in the tape library segment for internal reporting presentations.

The types of products and services provided by each segment are summarized below:

Tape Libraries — We design, develop, manufacture and sell automated magnetic tape libraries used to store, retrieve and manage electronic data primarily in network computing environments. Tape libraries consist of cartridge tape drives, tape cartridges and robotics to move the cartridges from their storage locations to the tape drives under software control. Our tape libraries provide data storage solutions for organizations requiring backup, recovery and archival storage of critical data.

Power Supplies — We design, manufacture, and sell small, open frame, 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 telecommunications equipment, machine tools, routers, switches, wireless systems and gaming devices.

QUALSTAR CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS- (Continued)

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

| | Three Months Ended December 31, 2011 | Three Months Ended December 31, 2010 | Six Months Ended December 31, 2011 | Six Months Ended December 31, 2010 |
|---|---|---|---|---|
| Revenue | | | | |
| Tape Libraries: | | | | |
| Product | $ 1,098 | $ 2,018 | $ 2,807 | $ 4,464 |
| Service | 473 | 556 | 1,185 | 1,335 |
| Total Tape Libraries | 1,571 | 2,574 | 3,992 | 5,799 |
| Power Supplies | 1,984 | 1,533 | 4,187 | 3,549 |
| Total Revenue | $ 3,555 | $ 4,107 | $ 8,179 | $ 9,348 |

| | Three Months Ended December 31, 2011 | Three Months Ended December 31, 2010 | Six Months Ended December 31, 2011 | Six Months Ended December 31, 2010 |
|---|---|---|---|---|
| (Loss) Income before Taxes | | | | |
| Tape Libraries | $ (970) | $ (399) | $ (1,106) | $ (472) |
| Power Supplies | (1) | 103 | 192 | 343 |
| Total Loss before Taxes | $ (971) | $ (296) | $ (914) | $ (129) |

| | December 31, 2011 | June 30, 2011 |
|---|---|---|
| Total Assets | | |
| Tape Libraries | $ 29,586 | $ 30,599 |
| Power Supplies | 1,312 | 1,336 |
| Total Assets | $ 30,898 | $ 31,935 |

Note 13 – Subsequent Event

The Company has performed an evaluation of subsequent events through the date of filing.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements in this Quarterly Report on Form 10-Q concerning the future business, operating results and financial condition of Qualstar including estimates, projections, statements relating to our business plans, objectives and operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements inherently are subject to risks and uncertainties, some of which we cannot predict or quantify. Our actual results may differ materially from the results projected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011 in "ITEM 1 Business," "Item 1A Risk Factors," and in "ITEM 7 Management's Discussion and Analysis of Financial Condition and Results of Operations." You generally can identify forward-looking statements by the use of forward-looking terminology such as "believes," "may," "expects," "intends," "estimates," "anticipates," "plans," "seeks," or "continues," or the negative thereof or variations thereon or similar terminology Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect the occurrence of events or circumstances in the future.

OVERVIEW

We design, develop, manufacture and sell automated magnetic tape libraries used to store, retrieve and manage electronic data primarily in network computing environments. We currently offer tape libraries utilizing the LTO tape drive technology.

Many enterprises now routinely manage very large databases, in addition to storing information on local desktop computers. This, coupled with the growth in the amount of data from new sources and applications, is increasing the need for managing and storing data efficiently. We have developed tape libraries spanning a range of prices, capacity and performance. We expect our products to continue to evolve in the future in response to emerging tape technologies and changing customer preferences.

We have developed a network of value added resellers who specialize in delivering complete storage solutions to end-users. End users of our products range from small businesses requiring simple automated backup solutions to large organizations needing complex storage management solutions. We assist our customers with marketing, sales and technical support.

We also design, develop and sell high-efficiency open-frame switching power supplies used in telecommunications equipment, servers, routers, switches, RAIDs, high-efficiency lighting and similar applications. Our power supplies are sold under the N2Power brand name through independent sales representatives and distributors. The primary customers are original equipment manufacturers, contract manufacturers and distributors. We also utilize these power supplies in many of our tape libraries.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations is based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to customer promotional offers, sales returns, bad debts, inventories, warranty costs, investments, share based compensation, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

Revenue is recognized in accordance with Accounting Standards Codification ("ASC") 605, "Revenue Recognition," when persuasive evidence of an arrangement exists, transfer of title has occurred, the price is fixed or readily determinable, and collectability is reasonably assured. Title and risk of loss transfer to the customer when the product leaves our dock in Simi Valley, California, or another shipping location designated by us. Revenue for products that have not previously satisfied customer acceptance requirements or sales where customer payment dates are not determinable or collection is not reasonably assured is recognized upon customer acceptance or when payment has been received.

We record an allowance for estimated sales returns based on past experience and current knowledge of our customer base. Our experience has been such that only a very small percentage of products are returned. Should our experience change however, we may require additional allowances for sales returns.

Marketable Securities

All of Qualstar's marketable securities were classified as available-for-sale as it is possible that some securities will be sold prior to maturity. Available-for-sale securities are recorded at market value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Dividend and interest income are recognized when earned. Realized gains and losses for securities classified as available-for-sale are included in earnings when the underlying securities are sold and are derived using the specific identification method for determining the cost of securities sold.

Financial Instruments

We measure fair value on all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least quarterly). See "Note 6 – Fair Value Measurements."

Allowance for Doubtful Accounts

We estimate our allowance for doubtful accounts based on an assessment of the collectability of specific accounts and the overall condition of accounts receivable. In evaluating the adequacy of the allowance for doubtful accounts, we analyze specific trade receivables, historical bad debts, customer credits, customer credit-worthiness and changes in customers' payment terms and patterns. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make additional payments, then we may need to make additional allowances. Likewise, if we determine that we could realize more of our receivables in the future than previously estimated, we would adjust the allowance to increase income in the period we made this determination.

Inventory Valuation

We record inventories at the lower of cost or market value. We assess the value of our inventories periodically based upon numerous factors including expected product or material demand, current market conditions, technological obsolescence, current cost and net realizable value. If necessary, we write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If technology changes more rapidly than expected, or market conditions become less favorable than those projected by management, additional inventory write-downs may be required.

Warranty Obligations

We provide for the estimated cost of product warranties at the time revenue is recognized. We engage in extensive product quality programs and processes, including active monitoring and evaluation of product failure rates, material usage and estimation of service delivery costs incurred in correcting a product failure. However, should actual product failure rates, material usage, or service delivery costs differ from our estimates, revisions to the estimated warranty liability would be required. Historically our warranty costs have not been significant.

## Share-Based Compensation

Share-based compensation is accounted for in accordance with ASC 718, “Compensation – Stock Compensation”. We use the Black-Scholes option-pricing model to determine fair value of the award at the date of grant and recognize compensation expense over the vesting period. The inputs we use for the model require the use of judgment, estimates and assumptions regarding the expected volatility of the stock, the expected term the average employee will hold the option prior to the date of exercise, expected future dividends, and the amount of share-based awards that are expected to be forfeited. Changes in these inputs and assumptions could occur and actual results could differ from these estimates, and our results of operations could be impacted.

## Accounting for Income Taxes

We estimate our tax liability based on current tax laws in the statutory jurisdictions in which we operate in accordance with ASC 740, “Income Taxes.” These estimates include judgments about deferred tax assets and liabilities resulting from temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes, as well as about the realization of deferred tax assets.  We may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, and income tax disclosures.

We maintain a valuation allowance to reduce our deferred tax assets due to the uncertainty surrounding the timing of realizing the benefits of net deferred tax assets in future years. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for such a valuation allowance. In the event we were to determine that we would be able to realize all or part of our net deferred tax asset in the future, the valuation allowance would be decreased accordingly.

We may periodically undergo examinations by the federal and state regulatory authorities and the Internal Revenue Service. We may be assessed additional taxes and/or penalties contingent on the outcome of these examinations. Our previous examinations have not resulted in any unfavorable or significant assessments.

## RESULTS OF OPERATIONS

The following table reflects, as a percentage of net revenues, statements of operations data for the periods indicated:

| | Three Months Ended December 31, | | | | Six Months Ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| Net revenues | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |
| Cost of goods sold | 76.7 | | 60.6 | | 68.9 | | 60.1 | |
| Gross profit | 23.3 | | 39.4 | | 31.1 | | 39.9 | |
| Operating expenses: | | | | | | | | |
| Research and development | 18.3 | | 17.7 | | 15.9 | | 15.3 | |
| Sales and marketing | 12.6 | | 14.1 | | 11.1 | | 13.0 | |
| General and administrative | 20.8 | | 15.8 | | 16.3 | | 13.9 | |
| Total operating expenses | 51.7 | | 47.6 | | 43.3 | | 42.2 | |

| | | | | |
|---|---|---|---|---|
| Loss from operations | (28.4 ) | (8.2 ) | (12.2 ) | (2.3 ) |
| Investment income | 1.2 | 1.0 | 1.0 | 1.0 |
| Loss before income taxes | (27.2 ) | (7.2 ) | (11.2 ) | (1.3 ) |
| Provision for income taxes | 0.0 | 0.0 | 0.0 | 0.0 |
| Net loss | (27.2 )% | (7.2 )% | (11.2 )% | (1.3 )% |

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We have two operating segments for financial reporting purposes: tape libraries and power supplies, as discussed in Note 12 of the Notes to Financial Statements in Item 1 of this report. The following table summarizes our revenue by major product line and by operating segment:

| | Three Months Ended December 31, | | | | Six Months Ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| Tape Library revenues: | | | | | | | | |
| TLS | 3.4 | % | 7.1 | % | 4.1 | % | 7.9 | % |
| RLS | 14.8 | | 5.9 | | 11.0 | | 5.4 | |
| XLS | 8.0 | | 31.1 | | 15.8 | | 28.6 | |
| | 26.2 | | 44.1 | | 30.9 | | 41.9 | |
| Other library revenues: | | | | | | | | |
| Service | 13.3 | | 13.5 | | 14.5 | | 14.3 | |
| Media | 1.0 | | 2.2 | | 1.5 | | 2.5 | |
| Upgrades, spares | 3.7 | | 2.9 | | 1.9 | | 3.3 | |
| | 18.0 | | 18.6 | | 17.9 | | 20.1 | |
| Total Library revenues | 44.2 | | 62.7 | | 48.8 | | 62.0 | |
| Power Supply revenues | 55.8 | | 37.3 | | 51.2 | | 38.0 | |
| | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |

Three Months Ended December 31, 2011 Compared to Three Months Ended December 31, 2010

Net Revenue. Net revenues decreased to $3.6 million for the three months ended December 31, 2011 from $4.1 million for the three months ended December 31, 2010, a decrease of $0.5 million, or 13.4%. One customer accounted for 11.6% of the Company's revenue for the three-month period ended December 31, 2011. The customer's accounts receivable balance, net of specific allowances, totaled approximately 10.1% of net accounts receivable as of December 31, 2011. One customer accounted for 21.5% of the Company's revenue for the three-month period ended December 31, 2010. The customer's accounts receivable balance, net of specific allowances, totaled approximately 28.5% of net accounts receivable as of December 31, 2010.

Segment Revenue

Tape Libraries – Net tape library revenues decreased to $1.6 million for the three months ended December 31, 2011 from $2.6 million for the three months ended December 31, 2010, a decrease of $1.0 million, or 39.0%. This decrease in revenues was due to lower sales of TLS and XLS tape libraries, service and media, partially offset by increased sales of RLS tape libraries.

Power Supplies – Net revenues from power supplies increased to $2.0 million for the three months ended December 31, 2011 from $1.5 million for the three months ended December 31, 2010, an increase of $0.5 million, or 29.5%. The increase in revenues is attributed to increased demand by contract manufacturers, original equipment manufacturers and distributors.

Gross Profit. Gross profit represents the difference between our net revenues and cost of goods sold. Cost of goods sold consists primarily of purchased parts, direct and indirect labor costs, rent, technical support costs, depreciation, utilities, and packaging costs. Gross profit decreased to $0.8 million, or 23.3% of net revenues, for the three months ended December 31, 2011 from $1.6 million, or 39.4% of net revenues, for the three months ended December 31, 2010.  The decrease in gross profit percentage is attributed to a change in product mix, lower absorption of labor and overhead, and an increase in rework expenses and inventory reserves.

Research and Development. Research and development expenses consist of engineering salaries, benefits, outside consultant fees, and purchased parts and supplies used in development activities. Research and development decreased to $0.6 million for the three months ended December 31, 2011 from $0.7 million for the three months ended December 31, 2010. The decrease of $0.1 million, or 10.3%, is primarily attributed to lower compensation expenses related to reductions in personnel.

Sales and Marketing. Sales and marketing expenses consist primarily of employee salaries and benefits, sales commissions, trade show costs, advertising and travel related expenses. Sales and marketing expenses decreased to $0.5 million for the three months ended December 31, 2011 from $0.6 million for the three months ended December 31, 2010. The decrease of $0.1 million, or 22.9%, is primarily attributed to lower compensation expenses related to reductions in personnel.

General and Administrative. General and administrative expenses include employee salaries and benefits and professional service fees. General and administrative expenses increased to $0.7 million for the three months ended December 31, 2011 from $0.6 million for the three months ended December 31, 2010. The increase of $0.1 million, or 14.0%, is primarily attributed to increased bad debt and legal expenses.

Investment Income. Investment income remained comparable at $41,000 for the three months ended December 31, 2011 and $43,000 for the three months ended December 31, 2010.

Provision for Income Taxes. We did not record a provision or benefit for income taxes for the three months ended December 31, 2011 and 2010.

Six Months Ended December 31, 2011 Compared to Six Months Ended December 31, 2010

Net Revenue. Net revenues decreased to $8.2 million for the six months ended December 31, 2011 from $9.3 million for the six months ended December 31, 2010, a decrease of $1.1 million, or 12.5%. One customer accounted for 11.1% of the Company's revenue for the six-month period ended December 31, 2011. The customer's accounts receivable balance, net of specific allowances, totaled approximately 10.1% of net accounts receivable as of December 31, 2011. Two customers accounted for 20.0% and 10.4%, respectively, of the Company's revenue for the six-month period ended December 31, 2010. The customers' accounts receivable balances, net of specific allowances, totaled approximately 28.5% and 4.1%, respectively of net accounts receivable as of December 31, 2010.

Segment Revenue

Tape Libraries – Net tape library revenues decreased to $4.0 million for the six months ended December 31, 2011 from $5.8 million for the six months ended December 31, 2010, a decrease of $1.8 million, or 31.2%. This decrease in revenues was due to lower sales of TLS and XLS tape libraries, service, media and spare parts, partially offset by increased sales of RLS tape libraries.

Power Supplies – Net revenues from power supplies increased to $4.2 million for the six months ended December 31, 2011 from $3.5 million for the six months ended December 31, 2010, an increase of $0.7 million, or 18.0%. The increase in revenues is attributed to increased demand by contract manufacturers, original equipment manufacturers and distributors.

Gross Profit. Gross profit represents the difference between our net revenues and cost of goods sold. Cost of goods sold consists primarily of purchased parts, direct and indirect labor costs, rent, technical support costs, depreciation, utilities, and packaging costs. Gross profit decreased to $2.5 million, or 31.1% of net revenues, for the six months ended December 31, 2011 from $3.7 million, or 39.9% of net revenues, for the six months ended December 31, 2010. The decrease in gross profit percentage is attributed to a change in product mix, lower absorption of labor and overhead and an increase in rework expenses and inventory reserves.

Research and Development. Research and development expenses consist of engineering salaries, benefits, outside consultant fees, and purchased parts and supplies used in development activities. Research and development decreased to $1.3 million for the six months ended December 31, 2011 from $1.4 million for the six months ended December 31, 2010. The decrease of $0.1 million, or 9.4%, is primarily attributed to lower compensation expenses related to reductions in personnel and lower consultant expenses.

Sales and Marketing. Sales and marketing expenses consist primarily of employee salaries and benefits, sales commissions, trade show costs, advertising and travel related expenses. Sales and marketing expenses decreased to $0.9 million for the six months ended December 31, 2011 from $1.2 million for the six months ended December 31, 2010. The decrease of $0.3 million, or 25.3%, is primarily attributed to lower compensation expenses related to reductions in personnel, lower commissions expenses and lower advertising and promotion expenses.

General and Administrative. General and administrative expenses include employee salaries and benefits and professional service fees. General and administrative expenses remained comparable at $1.3 million for the six months ended December 31, 2011 and 2010.

Investment Income. Investment income remained comparable at $85,000 for the six months ended December 31, 2011 and $90,000 for the six months ended December 31, 2010.

Provision for Income Taxes. We did not record a provision or benefit for income taxes for the six months ended December 31, 2011 and 2010.

## LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was $1.2 million in the six months ended December 31, 2011, primarily attributed to the net loss for the period, an increase in inventories and a decrease in accrued payroll and related liabilities, partially offset by an increase in other accrued liabilities and a decrease in prepaids and other assets. Net cash used in operating activities was $1.4 million in the six months ended December 31, 2010, primarily attributed to the net loss for the period, an increase in inventories, and a decrease in accounts payable and accrued payroll and related liabilities.

Cash provided by investing activities was $1.0 million in the six months ended December 31, 2011, attributed to proceeds from the sale of marketable securities partially offset by purchases of marketable securities. Cash provided by investing activities was $0.5 million in the six months ended December 31, 2010, primarily attributed to proceeds from the sale of marketable securities, partially offset by purchases of marketable securities.

Cash was not used in financing activities during the six months ended December 31, 2011 or 2010.

As of December 31, 2011, we had $4.8 million in cash and cash equivalents and $16.6 million in marketable securities. We believe that our existing cash and cash equivalents and cash flows from our operating activities, plus funds available from the sale of our marketable securities, will be sufficient to fund our working capital and capital expenditure needs for at least the next 12 months. We may utilize cash to invest in businesses, products or technologies that we believe are strategic. We periodically evaluate other companies and technologies for possible investment by us. 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 acquisition of other businesses or technologies.

## ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

We develop products in the United States and sell them worldwide. As a result, our financial results could be affected by factors such as 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 U.S. dollar could make our products less competitive in foreign markets. Our interest income is sensitive to changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments. We have no outstanding debt nor do we utilize derivative financial instruments. Therefore, no quantitative tabular disclosures are required.

## ITEM 4T. CONTROLS AND PROCEDURES

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Qualstar's disclosure controls and procedures as of December 31, 2011, pursuant to Rule 13a-15 under the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We did not make any changes in our internal control over financial reporting during the quarter ended December 31, 2011 of Qualstar's fiscal year ending June 30, 2012, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### ITEM 1A. Risk Factors

There have been no significant changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

### ITEM 6. EXHIBITS

| Exhibit No. | Exhibit Index |
|---|---|
| 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. |
| 32.1 | Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUALSTAR CORPORATION

| | | |
|---|---|---|
| Dated: January 31, 2012 | By: | /s/ WILLIAM J. GERVAIS<br>William J. Gervais<br>Chief Executive Officer and President<br>(Principal Executive Officer) |