

QUALSTAR CORP  
Form 10-Q  
February 12, 2015

---

---

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

---

**Form 10-Q**

---

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

**For the Quarterly Period December 31, 2014**

**OR**

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

**For the Transition Period From                      to**

**Commission file number 000-30083**

**QUALSTAR CORPORATION**

**CALIFORNIA**                      **95-3927330**  
(State of incorporation)      (I.R.S.  
Employer  
Identification  
No.)

**31248 Oak Crest Drive Suite #120, Westlake Village, CA 91361**

**(805) 583-7744**

**3990B Heritage Oak Ct., Simi Valley, CA 93063 (former address)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes    No

Indicate by 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    No

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   Accelerated filer   Non-accelerated filer   Smaller reporting company

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

Total shares of common stock without par value outstanding at January 29, 2015 are 12,253,117.

---

---



**QUALSTAR CORPORATION**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2014**

**INDEX**

**PART I — FINANCIAL INFORMATION**

<b>Item 1.</b>	<b>Financial Statements</b>	
	Condensed Consolidated Balance Sheets — December 31, 2014 and June 30, 2014	1
	Condensed Consolidated Statements of Comprehensive Loss — Three and six months ended December 31, 2014 and 2013	2
	Condensed Consolidated Statements of Cash Flows — Six months ended December 31, 2014 and 2013	3
	Condensed Consolidated Statement of Changes in Shareholders' Equity — Six months ended December 31, 2014	4
	Notes to Condensed Consolidated Financial Statements	5
<b>Item 2.</b>	<b>Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	16
<b>Item 3.</b>	<b>Qualitative and Quantitative Disclosures About Market Risk</b>	20
<b>Item 4.</b>	<b>Controls and Procedures</b>	20

**PART II — OTHER  
INFORMATION**

<b>Item 1.</b>	<b>Legal Proceedings</b>	21
----------------	--------------------------	----

<b>Item 1A.</b>	<b>Risk Factors</b>	22
-----------------	---------------------	----

**Item 5. Other Information** 22

**Item 6. Exhibits** 22

**Signatures** 23



**PART I — FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**QUALSTAR CORPORATION AND SUBSIDIARY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	<b>December 31, 2014 (Unaudited)</b>	<b>June 30, 2014 (Audited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,242	\$ 5,462
Marketable securities	-	1,763
Accounts receivables, net of allowances of \$73 at December 31, 2014, and \$92 at June 30, 2014	2,625	1,412
Inventories	3,069	3,177
Prepaid expenses and other current assets	351	241
Total current assets	11,287	12,055
Property and equipment, net	628	663
Other assets	43	67
Total assets	\$ 11,958	\$ 12,785
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,262	\$ 952
Accrued payroll and related liabilities	348	322
Deferred service revenue, short term	1,049	954
Other accrued liabilities	508	1,174
Total current liabilities	3,167	3,402

Edgar Filing: QUALSTAR CORP - Form 10-Q

Other long term liabilities	18	17
Deferred service revenue, long term	162	243
Total long term liabilities	180	260
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, 2014 and June 30, 2014	18,999	18,943
Accumulated other comprehensive income	-	1
Accumulated deficit	(10,388 )	(9,821 )
Total shareholders' equity	8,611	9,123
Total liabilities and shareholders' equity	\$ 11,958	\$ 12,785

**See notes to condensed consolidated financial statements.**

**QUALSTAR CORPORATION AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(Unaudited)****(In thousands, except per share data)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 31, 2014      2013</b>		<b>December 31, 2014      2013</b>	
Net revenues	\$3,528	\$3,440	\$6,848	\$5,631
Cost of goods sold	2,428	1,931	4,522	3,661
Gross profit	\$1,100	\$1,509	\$2,326	\$1,970
Operating expenses:				
Engineering	326	604	685	1,478
Sales and marketing	591	512	1,096	1,245
General and administrative	684	623	1,368	2,017
Restructuring	(245 )	26	(245 )	26
Total operating expenses	\$1,356	\$1,765	\$2,904	\$4,766
Loss from operations	(256 )	(256 )	(578 )	(2,796 )
Other income	11	5	11	18
Loss before income taxes	(245 )	(251 )	(567 )	(2,778 )
Provision for income taxes	-	-	-	-
Net loss	\$(245 )	\$(251 )	\$(567 )	\$(2,778 )
Change in unrealized (losses) gains on investments	-	(4 )	(1 )	6
Comprehensive loss	\$(245 )	\$(255 )	\$(568 )	\$(2,772 )
Loss per common share:				
Basic and Diluted	\$(0.02 )	\$(0.02 )	\$(0.05 )	\$(0.23 )
Weighted average common shares outstanding:				
Basic and Diluted	12,253	12,253	12,253	12,253

**See notes to condensed consolidated financial statements.**



**QUALSTAR CORPORATION AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	<b>Six Months Ended</b>	
	<b>December 31, 2014</b>	<b>2013</b>
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$(567 )	\$(2,778 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	104	91
Loss on disposal of assets	5	4
Provision for bad debts and returns, net	(19 )	7
Provision for inventory reserve and adjustments	(287 )	(60 )
Share based compensation	56	(6 )
Loss on sale of marketable securities	8	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,193 )	489
Receivable from CTS for manufacturing inventories	-	644
Inventories	395	(1,031 )
Prepaid expenses and other current assets	(86 )	63
Accounts payable	310	(449 )
Accrued payroll and related liabilities	26	(217 )
Deferred service revenue	14	-
Other accrued liabilities	(665 )	(75 )
Total adjustments	(1,332 )	(540 )
Net cash used in operating activities	\$(1,899 )	\$(3,318 )
<b>INVESTING ACTIVITIES:</b>		
Purchases of equipment	(74 )	(89 )
Proceeds from the sale of marketable securities	1,753	3,363
Net cash provided by investing activities	\$1,679	\$3,274
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$(220 )</b>	<b>\$(44 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>\$5,462</b>	<b>\$1,966</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$5,242</b>	<b>\$1,922</b>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURES:</b>		
Income taxes paid	\$-	\$2

**See notes to condensed consolidated financial statements.**

**QUALSTAR CORPORATION AND SUBSIDIARY**

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

**SIX MONTHS ENDED DECEMBER 31, 2014**