



Qualstar Corporation and Subsidiaries

**Annual Report
For the Year Ended December 31, 2025**

**Qualstar Corporation
1267 Flynn Road
Camarillo, CA 93012
Phone: +1 (805) 583-7744
www.qualstar.com**

QUALSTAR CORPORATION AND SUBSIDIARIES

INDEX TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets — December 31, 2025 and 2024.....	1
Consolidated Statements of Operations — Three Months and Years Ended December 31, 2025 and 2024	2
Consolidated Statements of Shareholders' Equity — Three Months and Years Ended December 31, 2025 and 2024	3
Consolidated Statements of Cash Flows — Years Ended December 31, 2025 and 2024	4
Notes to Consolidated Financial Statements	5
Management's Discussion and Analysis of Financial Condition and Results of Operations	21

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

	December 31, 2025	December 31, 2024
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,868	\$ 2,403
Marketable securities	943	42
Accounts receivable, net	675	681
Inventories	2,199	2,795
Prepaid expenses and other current assets	400	321
Total current assets	6,085	6,242
Property and equipment, net	19	26
Right-of-use assets	240	380
Deferred tax assets	30	30
Other assets	42	47
Total assets	\$ 6,416	\$ 6,725
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 352	\$ 505
Accrued payroll and related liabilities	108	98
Deferred service revenue	461	655
Lease liabilities	151	137
Other liabilities	68	65
Total current liabilities	1,140	1,460
Long-term liabilities:		
Lease liabilities, long-term	94	245
Deferred service revenue, long-term	537	418
Other liabilities, long-term	27	27
Total long-term liabilities	658	690
Total liabilities	1,798	2,150
Commitments and contingencies (Note 8)		
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; 1,380,853 shares issued and outstanding at December 31, 2025; and 1,411,336 shares issued and outstanding at December 31, 2024	17,706	17,733
Accumulated deficit	(13,088)	(13,158)
Total shareholders' equity	4,618	4,575
Total liabilities and shareholders' equity	\$ 6,416	\$ 6,725

QUALSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2025	2024	2025	2024
Revenues	\$ 1,488	\$ 2,033	\$ 6,595	\$ 8,044
Cost of goods sold	1,186	1,350	4,510	5,586
Gross profit	302	683	2,085	2,458
Operating expenses:				
Engineering	50	48	173	395
Sales and marketing	268	197	689	963
General and administrative	503	376	1,563	1,570
Total operating expenses	821	621	2,425	2,928
Income (loss) from operations	(519)	62	(340)	(470)
Other income (expense), net	(14)	(69)	413	2
Income (loss) before income taxes	(533)	(7)	73	(468)
Provision for income taxes	3	3	3	3
Net income (loss)	\$ (536)	\$ (10)	\$ 70	\$ (471)
Earnings (loss) per share:				
Basic	\$ (0.39)	\$ (0.01)	\$ 0.05	\$ (0.33)
Diluted	\$ (0.39)	\$ (0.01)	\$ 0.05	\$ (0.33)
Weighted average common shares outstanding:				
Basic	1,381	1,417	1,392	1,437
Diluted	1,381	1,417	1,458	1,437

QUALSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

Three Months Ended December 31, 2025	Common Stock		Accumulated		Total
	Shares	Amount	Deficit		
Balances at October 1, 2025	1,381	\$ 17,659	\$ (12,552)	\$	5,107
Stock-based compensation expense	-	47	-		47
Net (loss)	-	-	(536)		(536)
Balances at December 31, 2025	1,381	\$ 17,706	\$ (13,088)	\$	4,618

Year Ended December 31, 2025	Common Stock		Accumulated		Total
	Shares	Amount	Deficit		
Balances at January 1, 2025	1,411	\$ 17,733	\$ (13,158)	\$	4,575
Stock-based compensation expense	1	191	-		191
Share repurchases	(31)	(218)	-		(218)
Net income	-	-	70		70
Balances at December 31, 2025	1,381	\$ 17,706	\$ (13,088)	\$	4,618

Three Months Ended December 31, 2024	Common Stock		Accumulated		Total
	Shares	Amount	Deficit		
Balances at October 1, 2024	1,420	\$ 17,719	\$ (13,148)	\$	4,571
Stock-based compensation expense	1	46	-		46
Share repurchases	(9)	(32)	-		(32)
Net (loss)	-	-	(10)		(10)
Balances at December 31, 2024	1,412	\$ 17,733	\$ (13,158)	\$	4,575

Year Ended December 31, 2024	Common Stock		Accumulated		Total
	Shares	Amount	Deficit		
Balances at January 1, 2024	1,447	\$ 17,701	\$ (12,687)	\$	5,014
Stock-based compensation expense	1	175	-		175
Share repurchases	(37)	(143)	-		(143)
Net (loss)	-	-	(471)		(471)
Balances at December 31, 2024	1,411	\$ 17,733	\$ (13,158)	\$	4,575

QUALSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Year Ended	
	December 31,	
	2025	2024
Cash flows from operating activities:		
Net income (loss)	\$ 70	\$ (471)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7	26
Stock-based compensation expense	191	175
Realized and unrealized (gains) losses on marketable securities	(268)	49
Adjustment to reconcile operating lease expense to cash paid	2	(5)
Changes in operating assets and liabilities:		
Accounts receivable, net	6	1,493
Inventories	596	75
Prepaid expenses and other assets	(73)	33
Accounts payable	(153)	(976)
Accrued payroll and related liabilities	10	(41)
Deferred service revenue	(75)	(71)
Other liabilities	3	(65)
Net cash provided by operating activities	316	222
Cash flows from investing activities:		
(Purchases of) Proceeds from sale of marketable securities, net	(633)	49
Net cash provided by (used in) investing activities	(633)	49
Cash flows from financing activities:		
Share repurchases	(218)	(143)
Net cash (used in) financing activities	(218)	(143)
Net increase (decrease) in cash and cash equivalents	(535)	128
Cash and cash equivalents at beginning of period	2,403	2,275
Cash and cash equivalents at end of period	\$ 1,868	\$ 2,403
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 6	\$ 11
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 supply 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 supply solutions marketed under the N2Power brand. Our power supply solution products provide OEMs and product designers increased functionality while reducing thermal loads and cooling requirements and lowering operating costs. Our power supply 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 was re-incorporated in Nevada in 2026 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 supports expansion of the Company’s data storage business in the United Kingdom, 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 supply solutions products.

Principles of Consolidation

The consolidated financial statements include our accounts and the accounts of each of our wholly owned subsidiaries: 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 determinations as to 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,

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

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. 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.

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, to have defective parts replaced 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 December 31, 2025, we had deferred service revenue of approximately \$998,000. At December 31, 2024, we had deferred service revenue of approximately \$1,073,000.

Revenue recognized at a point in time primarily relates to product sales. Revenue recognized over time primarily relates to service agreements. The following table presents revenue recognized at a point in time and revenue recognized over time:

	Three Months Ended December 31,		Year Ended December 31,	
	2025	2024	2025	2024
	(In thousands)			
Revenue recognized at a point in time	\$ 1,249	\$ 1,745	\$ 5,548	\$ 6,891
Revenue recognized over time	239	288	1,047	1,153
Total revenue	\$ 1,488	\$ 2,033	\$ 6,595	\$ 8,044

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 Expected Credit Losses

The Company records accounts receivable at invoiced amounts, net of an allowance for expected credit losses. Accounts receivable are generally unsecured and arise from the sale of goods to customers in the ordinary course of business. The Company does not charge interest on past due accounts. Accounts are written off against the allowance when management determines they are uncollectible.

The allowance for expected credit losses represents management's estimate of lifetime expected credit losses on accounts receivable. In estimating the allowance, the Company considers historical credit loss experience, current economic conditions, and forecasts of estimated future conditions.

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Accounts receivable consisted of the following:

	December 31, 2025	December 31, 2024
	(In thousands)	
Accounts receivable, gross	\$ 681	\$ 689
Allowance for expected credit losses	(6)	(8)
Accounts receivable, net	\$ 675	\$ 681

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

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.

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

The following table summarizes changes in the Company's warranty liability:

	Year Ended December 31, 2025	Year Ended December 31, 2024
	(In thousands)	
Warranty liability, beginning of period	\$ 38	\$ 36
Warranties issued, settlements made, and changes in estimate, net	11	2
Warranty liability, end of period	\$ 49	\$ 38

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. Advertising costs incurred in the years ended December 31, 2025 and 2024 were \$162,000 and \$64,000, respectively.

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 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.

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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. For the year ended December 31, 2025, we recorded net gains on our marketable securities of approximately \$268,000, of which \$93,000 was realized and \$175,000 was unrealized. For the year ended December 31, 2024, we recorded net losses on our marketable securities of approximately \$49,000, all of which was unrealized.

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”. For the years ended December 31, 2025 and 2024, we recorded net foreign currency transaction gains (losses) of approximately \$31,000 and \$(28,000), respectively.

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.

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

QUALSTAR CORPORATION AND SUBSIDIARIES

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

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 March 30, 2026, being the date these consolidated financial statements were issued.

Note 2 – Balance Sheet Details

The following tables provide details of selected balance sheet accounts:

	December 31, 2025	December 31, 2024
Inventories	(In thousands)	
Raw materials	\$ 108	\$ 95
Finished goods	2,091	2,700
Inventories	\$ 2,199	\$ 2,795

	December 31, 2025	December 31, 2024
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	(747)	(740)
Property and equipment, net	\$ 19	\$ 26

Depreciation and amortization expense for the three months ended December 31, 2025 and 2024 was \$2,000 and \$2,000, respectively. Depreciation and amortization expense for the years ended December 31, 2025 and 2024 was \$7,000 and \$26,000, respectively.

	December 31, 2025	December 31, 2024
Accrued payroll and related liabilities	(In thousands)	
Accrued salaries, wages, and payroll taxes	\$ 20	\$ 18
Accrued vacation	88	80
Accrued payroll and related liabilities	\$ 108	\$ 98

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

	December 31, 2025	December 31, 2024
Other liabilities	(In thousands)	
Accrued warranty	\$ 49	\$ 38
Accrued outside commissions	16	15
Other accrued liabilities	3	12
Other liabilities	\$ 68	\$ 65

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 December 31, 2025 and 2024, 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 December 31, 2025, there were 1,380,853 shares of common stock outstanding; and at December 31, 2024, there were 1,411,336 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 from time to time, most recently in March 2025) permits the Company to repurchase up to an additional 100,000 shares of common stock through December 31, 2026. During the overall period of the Stock Repurchase Program from September 1, 2021 through December 31, 2025, the Company has repurchased 502,334 shares for an aggregate purchase price of \$1,487,000. During the three-month periods ended December 31, 2025 and 2024, the Company repurchased 0 shares and 8,717 shares, respectively, for aggregate purchase prices of \$0 and \$32,000, respectively. During the years ended December 31, 2025 and 2024, the Company repurchased 31,173 shares and 36,656 shares, respectively, for aggregate purchase prices of \$218,000 and \$143,000, respectively.

Note 4 – Earnings Per Share

Basic earnings per share has been computed by dividing net income/loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income/loss 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
(Unaudited)**

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		Year Ended	
	December 31,		December 31,	
	2025	2024	2025	2024
Net income (loss)	\$ (536)	\$ (10)	\$ 70	\$ (471)
Weighted average outstanding shares of common stock - basic	1,381	1,417	1,392	1,437
Dilutive potential common shares from employee stock options	-	-	66	-
Weighted average outstanding shares of common stock - diluted	1,381	1,417	1,458	1,437
Earnings (loss) per share:				
Basic earnings (loss) per share	\$ (0.39)	\$ (0.01)	\$ 0.05	\$ (0.33)
Diluted earnings (loss) per share	\$ (0.39)	\$ (0.01)	\$ 0.05	\$ (0.33)

For the three months ended December 31, 2025 and 2024, and for the year ended December 31, 2024, 211,300 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 December 31, 2025. 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 vested 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 expenses of approximately \$47,000 and \$46,000 were recorded in the three months ended December 31, 2025 and 2024, respectively, and expenses of approximately \$186,000 and \$170,000 were recorded

QUALSTAR CORPORATION AND SUBSIDIARIES

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

in the years ended December 31, 2025 and 2024, respectively. In addition, \$5,000 of stock based-compensation expense was recorded in the years ended December 31, 2025 and 2024 for 690 and 870 shares, respectively, issued to a director for services as part of the Company's outside director compensation policy.

The following table summarizes stock option activity:

	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (thousands)
Outstanding at December 31, 2024	211,300	\$ 5.84	5.68	\$ -
Granted	-	-		
Exercised	-	-		
Forfeited, canceled or expired	-	-		
Outstanding at December 31, 2025	211,300	\$ 5.84	4.68	\$ 2,824
Exercisable at December 31, 2025	161,300	\$ 6.26	3.62	\$ 2,086

Note 6 – Income Taxes

The provision for income taxes is comprised of the following:

	Year Ended December 31, 2025	Year Ended December 31, 2024
	(In thousands)	
Current:		
Federal	\$ -	\$ -
State	3	3
Foreign	-	-
Current income tax provision (benefit)	3	3
Deferred:		
Federal	-	-
State	-	-
Foreign	-	-
Deferred income tax provision (benefit)	-	-
Net income tax provision (benefit)	\$ 3	\$ 3

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following is a reconciliation of the statutory federal income tax rate to Qualstar’s effective income tax rate:

	Year Ended December 31, 2025	Year Ended December 31, 2024
Statutory federal income tax provision (benefit)	21.0 %	21.0 %
State income taxes, net of federal income tax benefit	47.1	20.6
Foreign income taxes, net of federal income tax benefit	7.4	(1.6)
Deferred tax adjustment – Research and development credit	145.7	(40.3)
Valuation allowance	(218.2)	(3.3)
Other	-	3.3
Effective income tax rate	<u>3.0 %</u>	<u>(0.3) %</u>

The tax effect of temporary differences resulted in deferred income tax assets (liabilities) as follows:

	December 31, 2025	December 31, 2024
(In thousands)		
Deferred tax assets:		
Net operating loss carry forwards	\$ 8,195	\$ 8,252
Capital loss carry forwards	22	55
Engineering credit carry forwards	1,640	1,733
Inventory reserves	406	367
Depreciation and other	1	1
Allowance for credit losses and returns	1	3
Share-based compensation	173	143
Capitalized inventory costs, and other accruals	221	266
Total gross deferred tax assets	<u>10,659</u>	<u>10,820</u>
Less valuation allowance on deferred tax assets	<u>(10,528)</u>	<u>(10,685)</u>
Net deferred tax assets	<u>131</u>	<u>135</u>
Deferred tax liabilities:		
Unrealized gains on marketable securities	(37)	-
Depreciation and other	-	(3)
Right-of-use assets	<u>(64)</u>	<u>(102)</u>
Total deferred tax liabilities	<u>(101)</u>	<u>(105)</u>
Net deferred taxes	<u>\$ 30</u>	<u>\$ 30</u>

With respect to global intangible low-taxed income (“GILTI”) rules which are applicable to a U.S. shareholder of any controlled foreign corporation (“CFC”), the Company accounts for taxes related to GILTI as such income is incurred.

The Company records a valuation allowance against its net deferred income tax assets when in management’s judgment, it is more likely than not that the deferred income tax assets will not be realized in the foreseeable future. For the years ended December 31, 2025 and 2024, the Company placed a valuation allowance on net deferred tax assets. With the exception of a small amount of California net operating loss (“NOL”) carryforward, the Company continues to fully offset its deferred tax assets with a valuation allowance. With regard to California deferred tax assets, because Qualstar files on a separate company basis and because Qualstar expects to generate income in the foreseeable future applicable to California, the Company reduced a portion of the valuation allowance related to Qualstar’s separate company NOL carryforward.

QUALSTAR CORPORATION AND SUBSIDIARIES

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

The Company has net operating loss carryforwards for federal income tax purposes of approximately \$32.2 million as of December 31, 2025, and \$32.4 million as of December 31, 2024. The Company has capital loss carryforwards for federal income tax purposes of approximately \$0.1 million as of December 31, 2025, and \$0.2 million as of December 31, 2024. The Company has net operating loss carryforwards for state income tax purposes of approximately \$21.3 million as of December 31, 2025, and \$21.9 million as of December 31, 2024. The Company has capital loss carryforwards for state income tax purposes of approximately \$0.1 million as of December 31, 2025, and \$0.2 million as of December 31, 2024. The Company had engineering and other credit carryforwards for tax purposes of \$2.2 million as of December 31, 2025, and \$2.4 million as of December 31, 2024.

If not utilized, the federal NOL will begin to expire in 2027, and other tax credit carryforwards will begin to expire beginning in 2026. If not utilized, the state NOL carryforwards will begin to expire in 2026. The state engineering credit has no limit on the carry-forward period. If not utilized, the Chinese NOL carryforwards will begin to expire in 2027.

For U.S. purposes, the Company completed its evaluation, as of December 31, 2020, of net operating loss and credit carryforward utilization limitations under Internal Revenue Code, as amended (the “Code”), Sections 382 and 383. Code Sections 382 and 383 impose certain limitations on the use of NOL or credit carryforwards in certain situations, including when a company has a change in ownership as defined in such sections. As of December 31, 2020, the Company has determined that it has not had a change in ownership within the meaning of IRC Sections 382 and 383. Management, at the date of this filing, is of the opinion that its NOL and credit carryforwards should not be limited, pursuant to Sections 382 and 383, as to the amount of such carryforwards that can be utilized each year.

The following table summarizes the activity related to the Company’s uncertain tax positions:

	Year Ended December 31, 2025	Year Ended December 31, 2024
(In thousands)		
Balance at beginning of year	\$ 27	\$ 27
Increases related to tax positions taken in current year	4	4
Increases related to tax positions taken in prior year	-	-
Decreases due to lapse of statute of limitations and other adjustments	(4)	(4)
Related interest and penalties, net of federal tax benefit	-	-
Balance at end of year	\$ 27	\$ 27

The deferred tax asset amounts related to NOL and credit carryforwards have been reduced by approximately \$443,500 of uncertain tax positions. The Company expects that any future changes in the unrecognized tax benefit will have no impact on the Company’s effective tax rate due to the existence of the valuation allowance.

The Company’s policy is to include interest and penalties on uncertain tax positions in income tax expense, which are not significant for the years ended December 31, 2025 and 2024. The Company files its tax returns in accordance with the laws of the jurisdictions in which it operates. The Company’s federal tax returns for fiscal years December 31, 2022 and subsequent and California tax returns for fiscal years December 31, 2021 and subsequent, are still subject to examination. Various state and foreign jurisdictions’ tax years remain open to examination as well, although the Company does not believe that any additional assessment will be material to its consolidated financial statements. The Company does not have any open examinations as of December 31, 2025. For the years ended December 31, 2025 and 2024, the operations of Qualstar Limited were not material for tax purposes and had no significant impact on the tax provision.

QUALSTAR CORPORATION AND SUBSIDIARIES

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

Note 7 – Concentration of Credit Risk, Significant Customers, and Geographic Information

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

Two customers accounted for more than 10% of the Company’s revenue for the three-month period ended December 31, 2025, while one customer accounted for more than 10% of the Company’s revenue for the three-month period ended December 31, 2024. One customer accounted for more than 10% of the Company’s revenue for the year ended December 31, 2025, while a different customer accounted for more than 10% of the Company’s revenue for the year ended December 31, 2024.

Our financial results are affected by fluctuations in foreign currency exchange rates, changing economic conditions both domestically and internationally, changes in tariffs, and various other global economic factors. As all of our sales are currently transacted 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 December 31,				Year Ended December 31,			
	2025		2024		2025		2024	
North America	\$ 713	47.9 %	\$ 1,115	54.8 %	\$ 3,929	59.6 %	\$ 5,106	63.5 %
Europe	572	38.4	511	25.1	1,909	28.9	1,602	19.9
Asia Pacific	189	12.7	373	18.3	715	10.8	1,075	13.4
Other	14	0.9	34	1.7	42	0.6	261	3.2
	<u>\$ 1,488</u>	<u>100.0 %</u>	<u>\$ 2,033</u>	<u>100.0 %</u>	<u>\$ 6,595</u>	<u>100.0 %</u>	<u>\$ 8,044</u>	<u>100.0 %</u>

Note 8 – 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 \$13,296 per month, 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.

The Company leases a 1,400 square-foot office facility in Camarillo, California on a month-to-month basis. The rent on this facility is currently \$1,900 per month.

Through December 31, 2025, the Company used a portion of Interlink’s Irvine, California office, for which the Company paid a facility usage fee of approximately \$1,600 per month.

For the period from July 2024 to March 2025, the Company used a portion of Interlink’s Bellevue, Washington office, for which the Company paid a facility usage fee of approximately \$4,300 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.

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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. No new ROU assets were capitalized during the year ended December 31, 2025. The weighted average incremental borrowing rate used to determine the initial value of ROU assets and lease liabilities during the year ended December 31, 2024 was 6.50%. 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 assessed for impairment. As of December 31, 2025, 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 December 31, 2025, the Company had right-of-use assets of \$240,000 and current and long-term operating lease liabilities of \$151,000 and \$94,000, respectively. At December 31, 2024, the Company had right-of-use assets of \$380,000 and current and long-term operating lease liabilities of \$137,000 and \$245,000, respectively. Future imputed interest as of December 31, 2025 totaled approximately \$14,000 (weighted average discount rate of 6.5%). The weighted average remaining lease term of the Company's leases as of December 31, 2025 is approximately 1.6 years.

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

	Minimum Lease Payment
2026	\$ 163
2027	96
Total undiscounted future non-cancelable minimum lease payments	259
Less: Imputed interest	(14)
Present value of lease liabilities	<u>\$ 245</u>

During the three months ended December 31, 2025 and 2024, we incurred approximately \$43,000 and \$54,000, respectively, of operating lease costs, which are included in operating expenses in our consolidated statements of operations. During the year ended December 31, 2025 and 2024, we incurred approximately \$183,000 and \$182,000, respectively, of operating lease costs, which are included in operating expenses in our consolidated statements 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

QUALSTAR CORPORATION AND SUBSIDIARIES

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

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 December 31, 2025.

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. The Company made matching contributions of \$2,000 and \$1,000 during the three months ended December 31, 2025 and 2024, respectively, and \$17,000 and \$30,000 during the year ended December 31, 2025 and 2024, respectively.

Note 9 – 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 2025 and 2024. 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. We also offer technical customer support service contracts, which provide customers with access to technical assistance, parts replacement of defective items, and the option to schedule on-site services, including support, installation, consulting, and design services, either through our team or our third-party service providers.

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 OEMs.

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

	Three Months Ended December 31,		Year Ended December 31,	
	2025	2024	2025	2024
	(In thousands)			
Revenues				
Data Storage:				
Product	\$ 1,175	\$ 1,266	\$ 4,473	\$ 3,933
Service	239	288	1,047	1,153
Total Data Storage	1,414	1,554	5,520	5,086
Power Supplies	74	479	1,075	2,958
Revenues	\$ 1,488	\$ 2,033	\$ 6,595	\$ 8,044

QUALSTAR CORPORATION AND SUBSIDIARIES

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

	Three Months Ended December 31,		Year Ended December 31,	
	2025	2024	2025	2024
	(In thousands)			
Income (Loss) Before Taxes				
Data Storage	\$ (298)	\$ 49	\$ 426	\$ 127
Power Supplies	(235)	(56)	(353)	(595)
Income (loss) before taxes	\$ (533)	\$ (7)	\$ 73	\$ (468)

	December 31,		December 31,	
	2025	2024	2025	2024
	(In thousands)			
Total Assets				
Data Storage				
Cash and cash equivalents			\$ 1,777	\$ 2,319
Marketable securities			943	42
Accounts receivable, net			672	538
Inventories			976	1,163
Prepaid expenses and other current assets			395	315
Property and equipment, net			15	21
Right-of-use assets			240	380
Other assets			49	54
Total Data Storage assets			5,067	4,832
Power Supplies				
Cash and cash equivalents			91	84
Accounts receivable, net			3	143
Inventories			1,223	1,632
Prepaid expenses and other current assets			5	6
Property and equipment, net			4	5
Other assets			23	23
Total Power Supplies assets			1,349	1,893
Total Assets			\$ 6,416	\$ 6,725

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 mutual facilities sharing agreement with Interlink under which (i) we allow Interlink to use of a portion of our Camarillo, California office and warehouse facility, and Interlink allowed us to use (while Interlink occupied such facilities) a portion of its former office facilities in Irvine, California and Bellevue, Washington; and (ii) we have agreed to split substantially all rent and facilities-related costs for each location on an apportioned basis according to the approximate relative usage levels by each entity. In addition, we have a mutual consulting agreement with Interlink under which certain of our respective employees and/or independent contractors provide certain operational, sales, marketing, general and administrative services to the other entity. Qualstar and

QUALSTAR CORPORATION AND SUBSIDIARIES

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

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 December 31,			
	2025		2024	
	Due to Interlink	Due from Interlink	Due to Interlink	Due from Interlink
	(in thousands)			
Balance at October 1,	\$ 17	\$ 35	\$ 26	\$ 29
Billed (or accrued) to Interlink by Qualstar	-	43	-	40
Paid by Interlink to Qualstar	-	(53)	-	(57)
Billed (or accrued) to Qualstar by Interlink	66	-	129	-
Paid by Qualstar to Interlink	(78)	-	(147)	-
Balance at December 31,	\$ 5	\$ 25	\$ 8	\$ 12

	Year Ended December 31,			
	2025		2024	
	Due to Interlink	Due from Interlink	Due to Interlink	Due from Interlink
	(in thousands)			
Balance at January 1,	\$ 8	\$ 12	\$ 2	\$ 32
Billed (or accrued) to Interlink by Qualstar	-	187	-	158
Paid by Interlink to Qualstar	-	(174)	-	(178)
Billed (or accrued) to Qualstar by Interlink	429	-	450	-
Paid by Qualstar to Interlink	(432)	-	(444)	-
Balance at December 31,	\$ 5	\$ 25	\$ 8	\$ 12

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. In 2021, we entered into a M&A advisory consulting services agreement with Bronson Financial LLC (“BF”), a wholly owned subsidiary of BKF Capital, pursuant to which BF provided M&A advisory consulting services to us. This agreement was terminated in April 2024; Qualstar paid BF \$40,000 in 2024 under this agreement prior to its termination. 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. There were no transactions between Qualstar and BKF Capital in 2025.

Ridgefield Acquisition Corp.

Ridgefield Acquisition Corp. (OTCMKTS: 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. Ryan J. Hoffman, our Chief Financial Officer, is also the Chief Financial Officer of Ridgefield. 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 \$250,000. The Ridgefield Note may be prepaid by Ridgefield at any time without penalty and is repayable on demand by the Company. The Ridgefield Note provides for interest to accrue on the outstanding principal balance at a rate of ten percent per annum compounded quarterly. Ridgefield borrowed \$50,000 under the Ridgefield Note in 2022, \$50,000 in 2023, \$10,000 in 2024, and \$75,887 in 2025. The balance of principal and accrued interest on the Ridgefield Note was \$185,887 and \$36,709, respectively, at December 31, 2025; and was \$110,000 and \$19,946, respectively, at December 31, 2024 (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 supply 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 supply solutions marketed under the N2Power brand. Our power supply solution products provide OEMs and product designers increased functionality while reducing thermal loads and cooling requirements and lowering operating costs. Our power supply 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 was re-incorporated in Nevada in 2026 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 supports expansion of the Company’s data storage business in the United Kingdom, 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 supply solutions products.

Results of Operations

The dollar amounts in the following tables are in thousands.

	Three Months Ended December 31,				Year Ended December 31,			
	2025		2024		2025		2024	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Data storage revenues	\$ 1,414	95.0 %	\$ 1,554	76.4 %	\$ 5,520	83.7 %	\$ 5,086	63.2 %
Power supplies revenues	74	5.0	479	23.6	1,075	16.3	2,958	36.8
Revenues	1,488	100.0	2,033	100.0	6,595	100.0	8,044	100.0
Cost of goods sold	1,186	79.7	1,350	66.4	4,510	68.4	5,586	69.4
Gross profit	302	20.3	683	33.6	2,085	31.6	2,458	30.6
Operating expenses:								
Engineering	50	3.4	48	2.4	173	2.6	395	4.9
Sales and marketing	268	18.0	197	9.7	689	10.4	963	12.0
General and administrative	503	33.8	376	18.5	1,563	23.7	1,570	19.5
Total operating expenses	821	55.2	621	30.5	2,425	36.8	2,928	36.4
Income (loss) from operations	(519)	(34.9)	62	3.0	(340)	(5.2)	(470)	(5.8)
Other income (expense), net	(14)	(0.9)	(69)	(3.4)	413	6.3	2	0.0
Income (loss) before taxes	(533)	(35.8)	(7)	(0.3)	73	1.1	(468)	(5.8)
Provision for income taxes	3	0.2	3	0.1	3	0.0	3	0.0
Net income (loss)	\$ (536)	(36.0) %	\$ (10)	(0.5) %	\$ 70	1.1 %	\$ (471)	(5.9) %

QUALSTAR CORPORATION AND SUBSIDIARIES

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

Revenues:

	Three Months Ended December 31,				Change	
	2025		2024			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Data storage revenues	\$ 1,414	95.0 %	\$ 1,554	76.4 %	\$ (140)	(9.0) %
Power supplies revenues	74	5.0	479	23.6	(405)	(84.6)
Revenues	\$ 1,488	100.0 %	\$ 2,033	100.0 %	\$ (545)	(26.8) %

	Year Ended December 31,				Change	
	2025		2024			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Data storage revenues	\$ 5,520	83.7 %	\$ 5,086	63.2 %	\$ 434	8.5 %
Power supplies revenues	1,075	16.3	2,958	36.8	(1,883)	(63.7)
Revenues	\$ 6,595	100.0 %	\$ 8,044	100.0 %	\$ (1,449)	(18.0) %

The fluctuations in revenues for the three months and year ended December 31, 2025 compared to the prior year are attributable to the segment-specific factors described below.

Segment Revenue

Data Storage – For the three months ended December 31, 2025 compared to the same quarter last year, data storage revenues were down 9%, which was attributable to a 7% decrease in product revenue from lower shipments of our tape-based data storage products and solutions, and a 17% decrease in revenues from technical service and support contracts. For the year ended December 31, 2025 compared to the prior year, data storage revenues were up 9%, which was attributable to a 14% increase in product revenues, offset in part by a 9% decrease in revenues from technical service and support contracts.

Power Supplies – The 85% decrease in power supplies revenues in the three-month period ended December 31, 2025 compared to the prior-year period, and the 64% decrease for the year, were due to decreased customer demand and order fulfillment of our power supplies products, caused primarily by the loss of a large customer.

Gross Profit:

	Three Months Ended December 31,				Change	
	2025		2024			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Gross profit	\$ 302	20.3 %	\$ 683	33.6 %	\$ (381)	(55.8) %

	Year Ended December 31,				Change	
	2025		2024			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Gross profit	\$ 2,085	31.6 %	\$ 2,458	30.6 %	\$ (373)	(15.2) %

The decreases in gross profit and gross margin percentage for the three-months ended December 31, 2025 compared to the same quarter last year were due to lower revenue in the current year. Gross profit for the year ended December 31, 2025 was down due to lower revenues, while gross margin percentage was up slightly due to favorable changes in the mix of sales of data storage products and power supplies products sold.

QUALSTAR CORPORATION AND SUBSIDIARIES

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

Operating Expenses:

	Three Months Ended December 31,				Change	
	2025		2024			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Engineering	\$ 50	3.4 %	\$ 48	2.4 %	\$ 2	4.2 %
Sales and marketing	268	18.0	197	9.7	71	36.0
General and administrative	503	33.8	376	18.5	127	33.8
Total operating expenses	<u>\$ 821</u>	<u>55.2 %</u>	<u>\$ 621</u>	<u>30.5 %</u>	<u>\$ 200</u>	<u>32.2 %</u>

	Year Ended December 31,				Change	
	2025		2024			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Engineering	\$ 173	2.6 %	\$ 395	4.9 %	\$ (222)	(56.2) %
Sales and marketing	689	10.4	963	12.0	(274)	(28.5)
General and administrative	1,563	23.7	1,570	19.5	(7)	(0.4)
Total operating expenses	<u>\$ 2,425</u>	<u>36.8 %</u>	<u>\$ 2,928</u>	<u>36.4 %</u>	<u>\$ (503)</u>	<u>(17.2) %</u>

Engineering

Engineering expenses were flat for the three-month period ended December 31, 2025 compared to the same quarter last year and were down for the year ended December 31, 2025 compared to 2024, due in each case to a decrease in power supplies engineering employees and consultants engaged.

Sales and Marketing

Sales and marketing expenses increased for the three-month period ended December 31, 2025 compared to the same quarter last year due to higher costs on marketing and promotional activities and trade shows. Sales and marketing expenses decreased for the year ended December 31, 2025 compared to 2024 due to lower compensation costs on lower headcount of sales employees and consultants.

General and Administrative

General and administrative costs increased for the three months ended December 31, 2025 compared to the same quarter last year due to higher compensation expenses on increased employee headcount. General and administrative costs for the year ended December 31, 2025 were flat with 2024.

Other Income (Expense), net

Other income (expense), net for the three months ended December 31, 2025 included \$18,000 of interest income, \$4,000 of gains on foreign currency exchange, and \$35,000 of losses on marketable securities. Other income (expense) for the three months ended December 31, 2024 included \$20,000 of interest income, \$33,000 of losses on foreign currency exchange, and \$56,000 of losses on marketable securities.

Other income (expense), net for the year ended December 31, 2025 included \$115,000 of interest income, \$31,000 of gains on foreign currency exchange, and \$268,000 of gains on marketable securities. Other income (expense) for the year ended December 31, 2024 included \$80,000 of interest income, \$28,000 of losses on foreign currency exchange, and \$49,000 of losses on marketable securities.

Liquidity and Capital Resources

Cash and cash equivalents decreased \$535,000 to \$1,868,000 at December 31, 2025, from \$2,403,000 at December 31, 2024.

Operating Activities

Net cash provided by operating activities was \$316,000 for the year ended December 31, 2025, compared with cash

QUALSTAR CORPORATION AND SUBSIDIARIES

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

provided by operating activities of \$222,000 for 2024. Cash provided by operating activities in 2025 was the result of net income of \$70,000, non-cash expenses of \$200,000, non-cash gains on marketable securities of \$268,000, and cash provided by changes in operating assets and liabilities of \$314,000. Cash provided by operating activities in 2024 was the result of net loss of \$471,000, non-cash expenses of \$196,000, non-cash losses on marketable securities of \$49,000, and cash provided by changes in operating assets and liabilities of \$448,000.

Investing Activities

Cash used in investing activities for the year ended December 31, 2025 consisted of \$633,000 of net purchases of marketable securities. Cash provided by investing activities for the year ended December 31, 2024 consisted of \$49,000 of proceeds from net sales of marketable securities.

Financing Activities

Cash used in financing activities for the years ended December 31, 2025 and 2024 consisted of \$218,000 and \$143,000, respectively, 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.