Qualstar Corporation and Subsidiaries

Quarterly Report
For the Quarter Ended September 30, 2026

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QUALSTAR CORPORATION AND SUBSIDIARIES

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

	September 30, 2026	December 31, 2025
Assets		
Current assets:		
Cash and cash equivalents	$ 1,265	$ 1,868
Marketable securities	761	943
Accounts receivable, net	1,065	675
Inventories	2,193	2,199
Prepaid expenses and other current assets	533	400
Total current assets	5,817	6,085
Property and equipment, net	16	19
Right-of-use assets	130	240
Deferred tax assets	30	30
Other assets	41	42
Total assets	$ 6,034	$ 6,416
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 695	$ 352
Accrued payroll and related liabilities	93	108
Deferred service revenue	510	461
Lease liabilities	134	151
Other liabilities	110	68
Total current liabilities	1,542	1,140
Long-term liabilities:		
Lease liabilities, long-term	-	94
Deferred service revenue, long-term	647	537
Other liabilities, long-term	27	27
Total long-term liabilities	674	658
Total liabilities	2,216	1,798
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock, no par value; 5,000,000 shares authorized; no shares issued	-	-
Common stock, no par value; shares authorized: 50,000,000; shares issued and outstanding: 4,130,156 at September 30, 2026, and 4,142,559 at December 31, 2025	17,678	17,706
Accumulated deficit	(13,860)	(13,088)
Total shareholders' equity	3,818	4,618
Total liabilities and shareholders' equity	$ 6,034	$ 6,416

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	**2025**	**2026**	**2025**
Revenues	$ 2,043	$ 2,018	$ 5,570	$ 5,107
Cost of goods sold	1,109	1,326	4,471	3,324
Gross profit	934	692	1,099	1,783
Operating expenses:				
Engineering	45	50	133	123
Sales and marketing	128	209	550	421
General and administrative	329	394	1,031	1,060
Total operating expenses	502	653	1,714	1,604
Income (loss) from operations	432	39	(615)	179
Other income (expense), net	(40)	180	(157)	427
Income (loss) before income taxes	392	219	(772)	606
Provision for income taxes	-	-	-	-
Net income (loss)	$ 392	$ 219	$ (772)	$ 606
Earnings (loss) per share:				
Basic	$ 0.09	$ 0.05	$ (0.19)	$ 0.14
Diluted	$ 0.09	$ 0.05	$ (0.19)	$ 0.14
Weighted average common shares outstanding:				
Basic	4,141	4,143	4,142	4,203
Diluted	4,343	4,341	4,142	4,254

QUALSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock		Accumulated	
Three Months Ended September 30, 2026	**Shares**	**Amount**	**Deficit**	**Total**
Balances at July 1, 2026	4,143	$ 17,721	$ (14,252)	$ 3,469
Stock-based compensation expense	1	5	-	5
Share repurchases	(14)	(48)	-	(48)
Net income	-	-	392	392
Balances at September 30, 2026	4,130	$ 17,678	$ (13,860)	$ 3,818

	Common Stock		Accumulated	
Nine Months Ended September 30, 2026	**Shares**	**Amount**	**Deficit**	**Total**
Balances at January 1, 2026	4,143	$ 17,706	$ (13,088)	$ 4,618
Stock-based compensation expense	1	20	-	20
Share repurchases	(14)	(48)	-	(48)
Net (loss)	-	-	(772)	(772)
Balances at September 30, 2026	4,130	$ 17,678	$ (13,860)	$ 3,818

	Common Stock		Accumulated	
Three Months Ended September 30, 2025	**Shares**	**Amount**	**Deficit**	**Total**
Balances at July 1, 2025	4,140	$ 17,608	$ (12,771)	$ 4,837
Stock-based compensation expense	3	51	-	51
Net income	-	-	219	219
Balances at September 30, 2025	4,143	$ 17,659	$ (12,552)	$ 5,107

	Common Stock		Accumulated	
Nine Months Ended September 30, 2025	**Shares**	**Amount**	**Deficit**	**Total**
Balances at January 1, 2025	4,233	$ 17,733	$ (13,158)	$ 4,575
Stock-based compensation expense	3	144	-	144
Share repurchases	(93)	(218)	-	(218)
Net income	-	-	606	606
Balances at September 30, 2025	4,143	$ 17,659	$ (12,552)	$ 5,107

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

	Nine Months Ended September 30,	
	2026	**2025**
Cash flows from operating activities:		
Net income (loss)	$ (772)	$ 606
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	3	5
Stock-based compensation expense	20	144
Realized and unrealized (gains) losses on marketable securities	189	(303)
Adjustment to reconcile operating lease expense to cash paid	-	3
Changes in operating assets and liabilities:		
Accounts receivable, net	(390)	(211)
Inventories	6	499
Prepaid expenses and other assets	(132)	(123)
Accounts payable	343	62
Accrued payroll and related liabilities	(16)	(1)
Deferred service revenue	159	(139)
Other liabilities	42	(2)
Net cash provided by (used in) operating activities	(548)	540
Cash flows from investing activities:		
(Purchases of) Proceeds from sale of marketable securities, net	(7)	(443)
Net cash (used in) investing activities	(7)	(443)
Cash flows from financing activities:		
Share repurchases	(48)	(218)
Net cash (used in) financing activities	(48)	(218)
Net (decrease) in cash and cash equivalents	(603)	(121)
Cash and cash equivalents at beginning of period	1,868	2,403
Cash and cash equivalents at end of period	$ 1,265	$ 2,282
Supplemental disclosure of cash flow information:		
Income taxes paid	$ 10	$ 6
Interest paid	$ -	$ -

Note 1 – Significant Accounting Policies

Business

Qualstar Corporation (collectively with its subsidiaries, "Qualstar", the "Company", "we", "us" or "our") is a custom designer and one-stop provider of enterprise archival data storage hardware and software solutions 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 and software used to store, retrieve, and manage data across mission-critical markets including media and entertainment, banking, government, military, oil and gas, data centers, high-performance computing, medical, and education. Our data storage solutions include models ranging from entry-level to enterprise and are a cost-effective resource for organizations requiring backup, recovery, and archival storage of critical electronic information. Our distribution channels include resellers, system integrators, and original equipment manufacturers ("OEMs").
- In addition, the Company is a leading provider of standard, modified-standard, and custom-designed power supply solutions marketed under the N2Power brand. Our power supply solutions give OEMs and product designers more functionality while reducing thermal loads, cooling requirements, and operating costs. We currently sell our power supply solutions to OEMs across a wide range of markets, including telecom/networking equipment, audio/visual, industrial, gaming, and medical.

Qualstar Corporation was incorporated in California in 1984 and re-incorporated in Nevada in April 2026. The Company has three wholly owned subsidiaries: N2Power, Inc. ("N2Power"), which operates the Company's power supplies business; Q-Smart Data Limited (China), which pursues new data storage business opportunities in Asia; and Qualstar Limited (U.K.), which 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.

April 2026 Stock Split

In connection with its reincorporation in Nevada, the Company effected a 3-for-1 forward stock split effective April 8, 2026. The stock split increased the number of issued and outstanding shares of common stock from 1,380,853 to 4,142,559 at that time. Except as otherwise noted, all references to common stock, common stock issuable upon exercise of stock options, and corresponding per share information throughout this Quarterly Report have been retroactively adjusted to reflect the stock split.

Principles of Consolidation

The consolidated financial statements include our accounts and the accounts of each of our wholly owned subsidiaries. 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, 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 September 30, 2026, we had deferred service revenue of approximately $1,157,000, up from approximately $998,000 at December 31, 2025.

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 September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
	(In thousands)			
Revenue recognized at a point in time	$ 1,818	$ 1,743	$ 4,938	$ 4,299
Revenue recognized over time	225	275	632	808
Total revenue	$ 2,043	$ 2,018	$ 5,570	$ 5,107

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.

Accounts receivable consisted of the following:

	September 30, 2026	December 31, 2025
	(In thousands)	
Accounts receivable, gross	$ 1,068	$ 681
Allowance for expected credit losses	(3)	(6)
Accounts receivable, net	$ 1,065	$ 675

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

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.

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:

	Nine Months Ended September 30, 2026	Nine Months Ended September 30, 2025
	(In thousands)	
Warranty liability, beginning of period	$ 49	$ 38
Warranties issued, settlements made, and changes in estimate, net	32	9
Warranty liability, end of period	$ 81	$ 47

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 three months ended September 30, 2026 and 2025 were $23,000 and $45,000, respectively. Advertising costs incurred in the nine months ended September 30, 2026 and 2025 were $87,000 and $68,000, 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.

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 three months ended September 30, 2026, we recorded net losses on our marketable securities of approximately $50,000, all of which was unrealized, compared to net gains on our marketable securities of approximately $158,000 for the three months ended September 30, 2025, of which $11,000 was realized, and $147,000 was unrealized. For the nine months ended September 30, 2026, we recorded net losses on our marketable securities of approximately $189,000, reflecting $1,000 of realized net gains and $190,000 of unrealized net losses, compared to net gains on our marketable securities of approximately $303,000 for the nine months ended September 30, 2025, of which $86,000 was realized and $217,000 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 three months ended September 30, 2026 and 2025, we recorded net foreign currency transaction gains of approximately $0 and $1,000, respectively. For the nine months ended September 30, 2026 and 2025, we recorded net foreign currency transaction gains/(losses) of approximately $(1,000) and $27,000, 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 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 November 12, 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:

	September 30, 2026	December 31, 2025
Inventories	(In thousands)	
Raw materials	$ 214	$ 108
Finished goods	1,979	2,091
Inventories	$ 2,193	$ 2,199

	September 30, 2026	December 31, 2025
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	(750)	(747)
Property and equipment, net	$ 16	$ 19

Depreciation and amortization expense for the three months ended September 30, 2026 and 2025 was $1,000 and

$1,000, respectively. Depreciation and amortization expense for the nine months ended September 30, 2026 and 2025 was $3,000 and $5,000, respectively.

	September 30, 2026	December 31, 2025
Accrued payroll and related liabilities	**(In thousands)**	
Accrued salaries, wages, and payroll taxes	$ 8	$ 20
Accrued vacation	85	88
Accrued payroll and related liabilities	$ 93	$ 108

	September 30, 2026	December 31, 2025
Other liabilities	**(In thousands)**	
Accrued warranty	$ 81	$ 49
Accrued outside commissions	27	16
Other accrued liabilities	2	3
Other liabilities	$ 110	$ 68

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 both September 30, 2026 and December 31, 2025, 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 September 30, 2026 and December 31, 2025, there were 4,130,156 and 4,142,559 shares of common stock outstanding, respectively.

April 2026 Stock Split

In connection with its reincorporation in Nevada, the Company effected a 3-for-1 forward stock split effective April 8, 2026. The stock split increased the number of issued and outstanding shares of common stock from 1,380,853 to 4,142,559 at that time. Except as otherwise noted, all references to common stock, common stock issuable upon exercise of stock options, and corresponding per share information throughout this Quarterly Report have been retroactively adjusted to reflect the stock split.

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 300,000 shares of common stock through December 31, 2026. During the overall period of the Stock Repurchase Program from its adoption as of September 1, 2021 through September 30, 2026, the Company has repurchased 1,521,018 shares for an aggregate purchase price of $1,535,000. During the three- and nine-month periods ended September 30, 2026, the Company repurchased 14,016 shares for an aggregate purchase price of $48,000. During the three- and nine-month

periods ended September 30, 2025, the Company repurchased 0 and 93,519 shares, respectively, for aggregate purchase prices of $0 and $218,000, 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.

In April 2026, the Company effected a 3-for-1 forward stock split. For all periods presented, all share and per share data have been retroactively adjusted for the effect of the stock split.

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 September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
Net income (loss)	$ 392	$ 219	$ (772)	$ 606
Weighted average outstanding shares of common stock - basic	4,141	4,143	4,142	4,203
Dilutive potential common shares from employee stock options	202	198	-	51
Weighted average outstanding shares of common stock - diluted	4,343	4,341	4,142	4,254
Earnings (loss) per share:				
Basic earnings (loss) per share	$ 0.09	$ 0.05	$ (0.19)	$ 0.14
Diluted earnings (loss) per share	$ 0.09	$ 0.05	$ (0.19)	$ 0.14

For the nine months ended September 30, 2026, 633,900 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 900,000 shares of common stock, of which 266,100 shares remain available for issuance as of September 30, 2026. 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 300,000 shares of common stock at $1.48 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 $1.48; and stock price on grant date $1.48. 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 $0 and $46,000 were recorded in the three months ended September 30, 2026 and 2025, respectively, and expenses of $15,000 and $139,000 were recorded in the nine months ended September 30, 2026 and 2025, respectively. In addition, $5,000 of stock based-compensation expense was recorded in the periods ended September 30, 2026 and 2025 for 1,613 and 690 and 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, 2025	633,900	$ 1.95	4.68	$ 2,824
Granted	-	-		
Exercised	-	-		
Forfeited, canceled or expired	-	-		
Outstanding at September 30, 2026	633,900	$ 1.95	3.93	$ 2,196
Exercisable at September 30, 2026	633,900	$ 1.95	3.93	$ 2,196

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

Our cash balances in our bank accounts may from time to time 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 September 30, 2026, and one customer accounted for more than 10% of the Company's revenue for the three-month period ended September 30, 2025. One customer accounted for more than 10% of the Company's revenue for each of the nine-month periods ended September 30, 2026 and 2025.

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 September 30,				Nine Months Ended September 30,			
	2026		2025		2026		2025	
North America	$ 1,101	53.9 %	$ 1,240	61.4 %	$ 3,162	56.8 %	$ 3,216	63.0 %
Europe	655	32.1	550	27.3	1,820	32.7	1,337	26.2
Asia Pacific	287	14.0	223	11.1	587	10.5	526	10.3
Other	-	0.0	5	0.2	1	0.0	28	0.5
	$ 2,043	100.0 %	$ 2,018	100.0 %	$ 5,570	100.0 %	$ 5,107	100.0 %

Note 7 – Commitments and Contingencies

Lease Agreements

The Company leases a 9,910 square-foot facility in Camarillo, California under an agreement that terminates on July 31, 2027. The rent on this facility is approximately $13,000 per month. 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 9, Interlink is a related party.

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

Through July 2026, the Company leased a 1,400 square-foot office facility in Camarillo, California on a month-to-month basis. The rent on this facility was $1,900 per month.

Through December 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.

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 nine months ended September 30, 2026 or 2025. 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. 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 September 30, 2026, the Company had right-of-use assets of $130,000 and current and long-term operating lease liabilities of $134,000 and $0, respectively. 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. Future imputed interest as of September 30, 2026 totaled approximately $4,000 (weighted average discount rate of 6.5%). The weighted average remaining lease term of the Company's leases as of September 30, 2026 is approximately 0.8 years.

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

	Minimum Lease Payment
2026 (remainder of year)	$ 42
2027	96
Total undiscounted future non-cancelable minimum lease payments	138
Less: Imputed interest	(4)
Present value of lease liabilities	$ 134

During the three months ended September 30, 2026 and 2025, we incurred approximately $32,000 and $41,000, respectively, of operating lease costs. During the nine months ended September 30, 2026 and 2025, we incurred approximately $101,000 and $140,000, respectively, of operating lease costs.

Legal and Other Contingencies

The Company is subject to a variety of claims and legal proceedings that arise from time to time in the ordinary course of our business. Although management currently believes that resolving claims against us, individually or in the aggregate, will not have a material adverse impact on our consolidated financial statements, these matters are subject to inherent uncertainties and management's view of these matters may change in the future. An estimated loss from a loss contingency such as a legal proceeding or claim is accrued by a charge to income if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. When legal costs that the entity expects to incur in defending itself in connection with a loss contingency accrual are expected to be material, the loss should factor in all costs and, if the legal costs are reasonably estimable, they should be accrued in accordance with ASC 450, regardless of whether a liability can be estimated for the contingency itself. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. Changes in these factors could materially impact our consolidated financial statements. No loss contingency was recorded as of September 30, 2026.

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 $3,000 and $4,000 during the three months ended September 30, 2026 and 2025, respectively, and matching contributions of $14,000 and $15,000 during the nine months ended September 30, 2026 and 2025, respectively.

Note 8 – Segment Information

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

Data Storage — Our data storage systems are marketed under the Qualstar brand and include highly scalable automated magnetic tape libraries and software used to store, retrieve, and manage data across mission-critical markets including media and entertainment, banking, government, military, oil and gas, data centers, high-performance

computing, medical, and education. Our data storage solutions include models ranging from entry-level to enterprise and are a cost-effective resource for organizations requiring backup, recovery, and archival storage of critical electronic information. Our distribution channels include resellers, system integrators, and OEMs. 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 are a leading provider of standard, modified-standard, and custom-designed power supply solutions marketed under the N2Power brand. Our power supply solutions give OEMs and product designers more functionality while reducing thermal loads, cooling requirements, and operating costs. We currently sell our power supply solutions to OEMs across a wide range of markets, including telecom/networking equipment, audio/visual, industrial, gaming, and medical. We utilize contract manufacturers in Asia to produce our power supplies products.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
	(In thousands)			
Revenues				
Data Storage:				
Product	$ 1,699	$ 1,386	$ 4,495	$ 3,298
Service	225	275	632	808
Total Data Storage	1,924	1,661	5,127	4,106
Power Supplies	119	357	443	1,001
Revenues	$ 2,043	$ 2,018	$ 5,570	$ 5,107

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2026	2025
	(In thousands)			
Income (Loss) Before Taxes				
Data Storage	$ 452	$ 290	$ 375	$ 724
Power Supplies	(60)	(71)	(1,147)	(118)
Income (loss) before taxes	$ 392	$ 219	$ (772)	$ 606

	September 30, 2026	December 31, 2025
	(In thousands)	
Total Assets		
Data Storage		
Cash and cash equivalents	$ 1,196	$ 1,777
Marketable securities	761	943
Accounts receivable, net	1,046	672
Inventories	2,008	976
Prepaid expenses and other current assets	520	395
Property and equipment, net	13	15
Right-of-use assets	130	240
Other assets	49	49
Total Data Storage assets	5,723	5,067
Power Supplies		
Cash and cash equivalents	69	91
Accounts receivable, net	19	3
Inventories	185	1,223
Prepaid expenses and other current assets	13	5
Property and equipment, net	3	4
Other assets	22	23
Total Power Supplies assets	311	1,349
Total Assets	$ 6,034	$ 6,416

Note 9 – Related Party Transactions

Interlink Electronics, Inc.

Interlink Electronics, Inc. (Nasdaq: LINK) is a related party. Steven N. Bronson, our President, CEO, and Director, is also Chairman of the Board, President and CEO of Interlink. Ryan J. Hoffman, our CFO, is also the CFO of Interlink. Mr. Bronson, together with BKF Capital Group, Inc. ("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 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 September 30,			
	2026		2025	
	Due to Interlink	Due from Interlink	Due to Interlink	Due from Interlink
	(in thousands)			
Balance at July 1	$ 7	$ 30	$ 17	$ 18
Billed (or accrued) to Interlink by Qualstar	-	41	-	50
Paid by Interlink to Qualstar	-	(58)	-	(33)
Billed (or accrued) to Qualstar by Interlink	109	-	110	-
Paid by Qualstar to Interlink	(93)	-	(110)	-
Balance at September 30	$ 23	$ 13	$ 17	$ 35

	Nine Months Ended September 30,			
	2026		2025	
	Due to Interlink	Due from Interlink	Due to Interlink	Due from Interlink
	(in thousands)			
Balance at January 1	$ 5	$ 25	$ 8	$ 12
Billed (or accrued) to Interlink by Qualstar	-	124	-	144
Paid by Interlink to Qualstar	-	(136)	-	(121)
Billed (or accrued) to Qualstar by Interlink	265	-	363	-
Paid by Qualstar to Interlink	(247)	-	(354)	-
Balance at September 30	$ 23	$ 13	$ 17	$ 35

Ridgefield Acquisition Corp.

Ridgefield Acquisition Corp. (OTCMKTS: RDGA) ("Ridgefield") is a related party. Steven N. Bronson, our President, CEO and Director, is also the CEO and Chairman of the Board of Ridgefield as well as Ridgefield's largest shareholder. Ryan J. Hoffman, our CFO, is also the CFO of Ridgefield. In 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 (as amended). 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, $75,887 in 2025, and $45,447 in 2026. The balance of principal and accrued interest on the Ridgefield Note was $231,334 and $57,017, respectively, at

September 30, 2026; and was $185,887 and $36,709, respectively, at December 31, 2025 (classified in Prepaid Expenses and Other Current Assets on our consolidated balance sheets).

BKF Capital Group, Inc.

BKF Capital Group, Inc. (OTCMKTS: BKFG) is a related party. Steven N. Bronson, our President, CEO and Director, is also the CEO and Chairman of the Board of BKF Capital. Ryan J. Hoffman, our CFO, is also the CFO of BKF Capital. BKF Capital, together with Mr. Bronson, has a controlling interest in Qualstar. Qualstar and BKF Capital have 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 the three and nine months ended September 30, 2026 and 2025.

Overview

Qualstar Corporation (collectively with its subsidiaries, "Qualstar", the "Company", "we", "us" or "our") is a custom designer and one-stop provider of enterprise archival data storage hardware and software solutions 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 and software used to store, retrieve, and manage data across mission-critical markets including media and entertainment, banking, government, military, oil and gas, data centers, high-performance computing, medical, and education. Our data storage solutions include models ranging from entry-level to enterprise and are a cost-effective resource for organizations requiring backup, recovery, and archival storage of critical electronic information. Our distribution channels include resellers, system integrators, and OEMs. In addition, the Company is a leading provider of standard, modified-standard, and custom-designed power supply solutions marketed under the N2Power brand. Our power supply solutions give OEMs and product designers more functionality while reducing thermal loads, cooling requirements, and operating costs. We currently sell our power supply solutions to OEMs across a wide range of markets, including telecom/networking equipment, audio/visual, industrial, gaming, and medical.

Qualstar Corporation was incorporated in California in 1984 and re-incorporated in Nevada in April 2026. The Company has three wholly owned subsidiaries: N2Power, Inc. ("N2Power"), which operates the Company's power supplies business; Q-Smart Data Limited (China), which pursues new data storage business opportunities in Asia; and Qualstar Limited (U.K.), which 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 September 30,				Nine Months Ended September 30,			
	2026		2025		2026		2025	
	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues	Amount	% of Revenues
Data storage revenues	$ 1,924	94.2 %	$ 1,661	82.3 %	$ 5,127	92.0 %	$ 4,106	80.4 %
Power supplies revenues	119	5.8	357	17.7	443	8.0	1,001	19.6
Revenues	2,043	100.0	2,018	100.0	5,570	100.0	5,107	100.0
Cost of goods sold	1,109	54.3	1,326	65.7	4,471	80.3	3,324	65.1
Gross profit	934	45.7	692	34.3	1,099	19.7	1,783	34.9
Operating expenses:								
Engineering	45	2.2	50	2.5	133	2.4	123	2.4
Sales and marketing	128	6.3	209	10.4	550	9.9	421	8.2
General and administrative	329	16.1	394	19.5	1,031	18.5	1,060	20.8
Total operating expenses	502	24.6	653	32.4	1,714	30.8	1,604	31.4
Income (loss) from operations	432	21.1	39	1.9	(615)	(11.0)	179	3.5
Other income (expense), net	(40)	(2.0)	180	8.9	(157)	(2.8)	427	8.4
Income (loss) before taxes	392	19.2	219	10.9	(772)	(13.9)	606	11.9
Provision for income taxes	-	-	-	-	-	-	-	-
Net income (loss)	$ 392	19.2 %	$ 219	10.9 %	$ (772)	(13.9) %	$ 606	11.9 %

Revenues:

	Three Months Ended September 30,					
	2026		2025		Change	
	Amount	% of Revenues	Amount	% of Revenues	$	%
Data storage revenues	$ 1,924	94.2 %	$ 1,661	82.3 %	$ 263	15.8 %
Power supplies revenues	119	5.8	357	17.7	(238)	(66.7)
Revenues	$ 2,043	100.0 %	$ 2,018	100.0 %	$ 25	1.2 %

	Nine Months Ended September 30,					
	2026		2025		Change	
	Amount	% of Revenues	Amount	% of Revenues	$	%
Data storage revenues	$ 5,127	92.0 %	$ 4,106	80.4 %	$ 1,021	24.9 %
Power supplies revenues	443	8.0	1,001	19.6	(558)	(55.7)
Revenues	$ 5,570	100.0 %	$ 5,107	100.0 %	$ 463	9.1 %

The fluctuations in revenues for the three and nine months ended September 30, 2026 compared to the prior year are attributable to the segment-specific factors described below.

Segment Revenue

Data Storage – For the three months ended September 30, 2026 compared to the same quarter last year, data storage revenues were up 16%, which was attributable to a 23% increase in product revenue from higher customer demand for our tape-based data storage products and solutions, offset in part by an 18% decrease in revenues from technical service and support contracts. For the nine months ended September 30, 2026 compared to the same period last year, data storage revenues were up 25%, which was attributable to a 36% increase in product revenue from higher customer demand for our tape-based data storage products and solutions, offset in part by a 22% decrease in revenues from technical service and support contracts.

Power Supplies – The 67% and 56% decreases in power supplies revenues in the three-month and nine-month periods ended September 30, 2026, respectively, compared to the prior-year periods were due to decreased customer demand and order fulfilment of our power supplies products.

Gross Profit:

	Three Months Ended September 30,					
	2026		2025		Change	
	Amount	% of Revenues	Amount	% of Revenues	$	%
Gross profit	$ 934	45.7 %	$ 692	34.3 %	$ 242	35.0 %

	Nine Months Ended September 30,					
	2026		2025		Change	
	Amount	% of Revenues	Amount	% of Revenues	$	%
Gross profit	$ 1,099	19.7 %	$ 1,783	34.9 %	$ (684)	(38.4) %

The increases in gross profit and gross margin percentage for the three months ended September 30, 2026 compared to the same quarter last year were due to higher revenues in our data storage business and favorable changes in our product mix. The decreases in gross profit and gross margin percentage for the nine months ended September 30, 2026 compared to the same period last year were due to a net realizable value charge of approximately $970,000 recorded in

June 2026 on slow-moving power supplies inventory due to the decreased demand from our customers in this segment. Excluding this charge, gross margin percentage for the nine months ended September 30, 2026 was 37.1%.

Operating Expenses:

	Three Months Ended September 30,					
	2026		2025		Change	
	Amount	% of Revenues	Amount	% of Revenues	$	%
Engineering	$ 45	2.2 %	$ 50	2.5 %	$ (5)	(10.0) %
Sales and marketing	128	6.3	209	10.4	(81)	(38.8)
General and administrative	329	16.1	394	19.5	(65)	(16.5)
Total operating expenses	$ 502	24.6 %	$ 653	32.4 %	$ (151)	(23.1) %

	Nine Months Ended September 30,					
	2026		2025		Change	
	Amount	% of Revenues	Amount	% of Revenues	$	%
Engineering	$ 133	2.4 %	$ 123	2.4 %	$ 10	8.1 %
Sales and marketing	550	9.9	421	8.2	129	30.6
General and administrative	1,031	18.5	1,060	20.8	(29)	(2.7)
Total operating expenses	$ 1,714	30.8 %	$ 1,604	31.4 %	$ 110	6.9 %

Engineering

Engineering expenses for the three- and nine-month periods ended September 30, 2026 were generally consistent with the corresponding prior-year periods, except that the 2025 year-to-date period included $31,000 of Employee Retention Credits (ERCs), which reduced engineering expenses in those prior year period.

Sales and Marketing

Sales and marketing expenses decreased for the three-month period ended September 30, 2026 compared with the corresponding quarter last year due to lower sales and marketing personnel and related compensation expenses. Sales and marketing expenses increased for the nine-month period ended September 30, 2026 compared to the prior year period due to higher marketing and promotional activities and trade show costs, as well as the absence of $119,000 of ERCs recorded in the prior-year, which reduced sales and marketing expenses last year.

General and Administrative

General and administrative expenses for the three- and nine-month periods ended September 30, 2026 were down compared to the corresponding prior-year periods due to lower compensation expenses. The 2025 year-to-date period included ERCs of $39,000, which reduced general and administrative expenses in that prior year period.

Other Income (Expense)

Other income (expense) for the three months ended September 30, 2026 included $10,000 of interest income and $50,000 of losses on marketable securities. Other income (expense) for the three months ended September 30, 2025 included $21,000 of interest income, $1,000 of gains on foreign currency exchange, and $158,000 of gains on marketable securities. Other income (expense) for the nine months ended September 30, 2026 included $33,000 of interest income, $1,000 of losses on foreign currency exchange, and $189,000 of losses on marketable securities. Other income (expense) for the nine months ended September 30, 2025 included $97,000 of interest income, $27,000 of gains on foreign currency exchange, and $303,000 of gains on marketable securities.

Liquidity and Capital Resources

Cash and cash equivalents decreased $603,000 to $1,265,000 at September 30, 2026, from $1,868,000 at December 31, 2025.

Operating Activities

Net cash used in operating activities was $548,000 for the nine months ended September 30, 2026, compared with cash provided by operating activities of $540,000 for the first nine months of 2025. Cash used in operating activities in 2026 was the result of net loss of $772,000, non-cash expenses of $23,000, non-cash losses on marketable securities of $189,000, and cash provided by changes in operating assets and liabilities of $12,000. Cash provided by operations in 2025 was the result of net income of $606,000, non-cash expenses of $152,000, non-cash gains on marketable securities of $303,000, and cash provided by changes in operating assets and liabilities of $85,000.

Investing Activities

Cash used in investing activities for the nine months ended September 30, 2026 and 2025 consisted of $7,000 and $443,000, respectively, of net purchases of marketable securities.

Financing Activities

Cash used in financing activities for the nine months ended September 30, 2026 and 2025 consisted of $48,000 and $218,000, 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.