

Qualstar Corporation

1267 Flynn Road, Camarillo, CA 93012

805-583-7744

www.qualstar.com

ir@qualstar.com

Quarterly Report

For the period ending March 31, 2026 (the "Reporting Period")

Outstanding Shares

The number of shares outstanding of our Common Stock was:

4,142,559 as of March 31, 2026 (Current Reporting Period Date or More Recent Date)

4,142,559 as of December 31, 2025 (Most Recent Completed Fiscal Year End)

Shell Status

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

Yes: No:

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

Yes: No:

Change in Control

Indicate by check mark whether a Change in Control⁵ of the company has occurred during this reporting period:

Yes: No:

⁵ "Change in Control" shall mean any events resulting in:

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

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

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

The issuer's name is Qualstar Corporation.

Current State and Date of Incorporation or Registration: Nevada (2026)

Standing in this jurisdiction: (e.g. active, default, inactive): Active

Prior Incorporation Information for the issuer and any predecessors during the past five years:

The issuer was incorporated in California from 1984 through 2026.

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

None

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

None

Address of the issuer's principal executive office:

1267 Flynn Road, Camarillo, California 93012

Address of the issuer's principal place of business:

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

1267 Flynn Road, Camarillo, California 93012

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

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

2) Security Information

Transfer Agent

Name: Colonial Stock Transfer Company

Phone: 1-801-355-5740

Email: shareholders@colonialstock.com

Address: 7840 S 700 E, Sandy, UT 84070

Publicly Quoted or Traded Securities:

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

Trading symbol: QBAK
Exact title and class of securities outstanding: Common stock
CUSIP: 74758R307
Par or stated value: None
Total shares authorized: 50,000,000 as of date: March 31, 2026
Total shares outstanding: 4,142,559 as of date: March 31, 2026
Total number of shareholders of record: Less than 10 as of date: March 31, 2026

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

N/A

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

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

Exact title and class of the security: N/A - none
Par or stated value: _____
Total shares authorized: _____ as of date: _____
Total shares outstanding: _____ as of date: _____
Total number of shareholders of record: _____ as of date: _____

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

N/A

Security Description:

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

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

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

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

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

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

None

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

None

3) Issuance History

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

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

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

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

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

Shares Outstanding			*Right-click the rows below and select "Insert" to add rows as needed.						
<u>Opening Balance:</u> Date <u>January 1, 2024</u> Common: <u>1,447,122</u> Preferred: <u>-0-</u>									
Date of Transaction	Transaction type (e.g., new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to. ***You must disclose the control person(s) for any entities listed.	Reason for share issuance (e.g. for cash or debt conversion) - OR- Nature of Services Provided	Restricted or Unrestricted as of this filing.	Exemption or Registration Type.
Jan1,2024 (Apr2026 3-for-1 split)	Apr2026 3-for-1 split	2,894,244	Common	N/A	N/A	N/A	Apr2026 3-for-1 split	N/A	N/A
07/17/2024	New Issuance	2,610	Common	\$1.92	No	David J. Wolenski	Services by Director	Restricted	N/A
Jul2024 through Sep2024	Share repurchases (treasury)	(83,817)	Common	Various, average \$1.33	N/A	N/A	N/A	N/A	N/A
Oct2024 through Dec2024	Share repurchases (treasury)	(26,151)	Common	Various, average \$1.23	N/A	N/A	N/A	N/A	N/A
Jan2025 through Mar2025	Share repurchases (treasury)	(6,300)	Common	Various, average \$1.34	N/A	N/A	N/A	N/A	N/A

Apr2025 through Jun2025	Share repurchases (treasury)	(87,219)	Common	Various, average \$2.40	N/A	N/A	N/A	N/A	N/A
07/15/2025	New Issuance	2,070	Common	\$2.42	No	David J. Wolenski	Services by Director	Restricted	N/A
Shares Outstanding on Date of This Report:									
Ending Balance:									
Date <u>March 31, 2026</u> Common: <u>4,142,559</u>									
Preferred: <u>-0-</u>									

Example: A company with a fiscal year end of December 31st 2024, in addressing this item for its Annual Report, would include any events that resulted in changes to any class of its outstanding shares from the period beginning on January 1, 2023 through December 31, 2024 pursuant to the tabular format above.

Any additional material details, including footnotes to the table are below:

N/A

B. Convertible Debt

The following is a complete list of the Company's Convertible Debt which includes all promissory notes, convertible notes, convertible debentures, or any other debt instruments convertible into a class of the issuer's equity securities. The table includes all issued or outstanding convertible debt at any time during the last complete fiscal year and any interim period between the last fiscal year end and the date of this Certification.

Check this box to confirm the Company had no Convertible Debt issued or outstanding at any point during this period.

Date of Note Issuance	Principal Amount at Issuance (\$)	Outstanding Balance (\$) (include accrued interest)	Maturity Date	Conversion Terms (e.g., pricing mechanism for determining conversion of instrument to shares)	# Shares Converted to Date	# of Potential Shares to be Issued Upon Conversion ⁶	Name of Noteholder (entities must have individual with voting / investment control disclosed).	Reason for Issuance (e.g., Loan, Services, etc.)
Total Outstanding Balance:				Total Shares:				

⁶ The total number of shares that can be issued upon full conversion of the Outstanding Balance. The number should not factor any "blockers" or limitations on the percentage of outstanding shares that can be owned by the Noteholder at a particular time. For purposes of this calculation, please use the current market pricing (e.g. most recent closing price, bid, etc.) of the security if conversion is based on a variable market rate.

Any additional material details, including footnotes to the table are below:

4) Issuer's Business, Products and Services

The purpose of this section is to provide a clear description of the issuer's current operations. Ensure that these descriptions are updated on the Company's Profile on www.OTCMarkets.com.

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

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

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

Qualstar Corporation and its subsidiaries are organized into two strategic business segments, data storage systems and power solutions. Qualstar Corporation was incorporated in California in 1984 and was re-incorporated in Nevada in 2026 and currently has three wholly owned subsidiaries: the N2Power, Inc. subsidiary operates the Company's power supplies business; the Q-Smart Data Limited (China) subsidiary pursues new data storage business opportunities in Asia; and. the Qualstar Limited (U.K.) subsidiary supports expansion of the Company's data storage business in the United Kingdom, Europe and Africa.

C. Describe the issuers' principal products or services.

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

5) Issuer's Facilities

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

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

The Company occupies an operating facility in Camarillo, California under a lease expiring in 2027 which it uses for production, warehousing, distribution, and administrative operations. The Company occupies a facility in Singapore on a month-to-month basis which it uses for product-development activities.

6) All Officers, Directors, and 5% Beneficial Owners of the Company

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

In addition, list all individuals or entities controlling 5% or more of any class of the issuer's securities. If any insiders listed are corporate shareholders or entities, provide the name and address of the person(s) beneficially owning or controlling such corporate shareholders, or the name and contact information (City, State) of an individual representing the corporation or entity. Include Company Insiders who own any outstanding units or shares of any class of any equity security of the issuer.

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

Individual Name (First, Last) or Entity Name (Include names of control person(s) if a corporate entity)	Position/Company Affiliation (ex: CEO, ≥ 5% beneficial owner)	City and State (Include Country if outside U.S.)	Number of Shares Owned (List common, preferred, warrants and options separately)	Class of Shares Owned	Percentage of Class of Shares Owned (undiluted)
Steven N. Bronson	CEO, President, and Director	Fremont, CA	559,500	Common	13.4%
BKF Asset Holdings, Inc. (control person – Steven N. Bronson)	5%+ shareholder	Fremont, CA	2,670,270	Common	64.5%
David J. Wolenski	Director	Littleton, CO	18,999	Common	<1.0%
Ryan Hoffman	CFO	Fremont, CA	-0-	Common	-0%

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

7) Legal/Disciplinary History

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

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

None

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

None

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

None

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

None

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

None

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

None

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

None

8) Third Party Service Providers

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

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

Securities Counsel

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

Accountant or Auditor

Name: Lyndsey M. Niles
Firm: LMHS, P.C.
Address 1: 80 Washington Street, Building S
Address 2: Norwell, MA 02061
Phone: (781) 878-9111
Email: lniles@lmhspsc.com

Investor Relations

Name: _____

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

All other means of Investor Communication:

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

Other Service Providers

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

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

9) Disclosure & Financial Information

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

Name: **Ryan J. Hoffman**
Title: **Chief Financial Officer**
Relationship to Issuer: **Officer**

B. The following financial statements were prepared in accordance with:

- IFRS
 U.S. GAAP

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

Name: **Ryan J. Hoffman**
Title: **Chief Financial Officer**
Relationship to Issuer: **Officer**

Describe the qualifications of the person or persons who prepared the financial statements:⁷ **Ryan has 25+ years of accounting, auditing and professional services experience in roles at global public accounting firms and corporations. He graduated with a degree in accounting from Chapman University and is a licensed CPA**

⁷ The financial statements requested pursuant to this item must be prepared in accordance with US GAAP or IFRS and by persons with sufficient financial skills.

(inactive). He is also the Chief Financial Officer of Interlink Electronics, Inc. (Nasdaq: LINK), BKF Capital Group, Inc. (OTCMKTS: BKFG), and Ridgefield Acquisition Corp (OTCMKTS: RDGA).

Provide the following qualifying financial statements:

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

Financial Statement Requirements:

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

10) Issuer Certification

Principal Executive Officer:

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

The certifications shall follow the format below:

I, Steven N. Bronson certify that:

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

May 5, 2026 [Date]

/s/ Steven N. Bronson [CEO's Signature]

(Digital Signatures should appear as “/s/ [OFFICER NAME]”)

Principal Financial Officer:

I, Ryan J. Hoffman certify that:

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

May 5, 2026 [Date]

/s/ Ryan J. Hoffman [CFO's Signature]

(Digital Signatures should appear as "/s/ [OFFICER NAME]")



Qualstar Corporation and Subsidiaries

**Quarterly Report
For the Quarter Ended March 31, 2026**

**Qualstar Corporation
1267 Flynn Road
Camarillo, CA 93012
Phone: +1 (805) 583-7744
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QUALSTAR CORPORATION AND SUBSIDIARIES

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

	March 31, 2026	December 31, 2025
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,498	\$ 1,868
Marketable securities	1,217	943
Accounts receivable, net	627	675
Inventories	2,661	2,199
Prepaid expenses and other current assets	540	400
Total current assets	6,543	6,085
Property and equipment, net	18	19
Right-of-use assets	204	240
Deferred tax assets	30	30
Other assets	42	42
Total assets	<u>\$ 6,837</u>	<u>\$ 6,416</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 734	\$ 352
Accrued payroll and related liabilities	104	108
Deferred service revenue	537	461
Lease liabilities	155	151
Other liabilities	75	68
Total current liabilities	1,605	1,140
Long-term liabilities:		
Lease liabilities, long-term	54	94
Deferred service revenue, long-term	580	537
Other liabilities, long-term	27	27
Total long-term liabilities	661	658
Total liabilities	2,266	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; 50,000,000 shares authorized; 4,142,559 shares issued and outstanding at both March 31, 2026 and December 31, 2025	17,721	17,706
Accumulated deficit	(13,150)	(13,088)
Total shareholders' equity	4,571	4,618
Total liabilities and shareholders' equity	<u>\$ 6,837</u>	<u>\$ 6,416</u>

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

	Three Months Ended	
	March 31,	
	2026	2025
Revenues	\$ 1,425	\$ 1,659
Cost of goods sold	1,055	1,050
Gross profit	370	609
Operating expenses:		
Engineering	43	60
Sales and marketing	216	112
General and administrative	347	302
Total operating expenses	606	474
Income (loss) from operations	(236)	135
Other income (expense), net	174	48
Income (loss) before income taxes	(62)	183
Provision for income taxes	-	-
Net income (loss)	\$ (62)	\$ 183
Earnings (loss) per share:		
Basic	\$ (0.01)	\$ 0.04
Diluted	\$ (0.01)	\$ 0.04
Weighted average common shares outstanding:		
Basic	4,143	4,230
Diluted	4,143	4,284

QUALSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

(Unaudited)

Three Months Ended March 31, 2026	<u>Common Stock</u>		<u>Accumulated</u>	Total
	Shares	Amount	Deficit	
Balances at January 1, 2026	1,381	\$ 17,706	\$ (13,088)	\$ 4,618
Stock-based compensation expense	-	15	-	15
Net (loss)	-	-	(62)	(62)
Balances at March 31, 2026	1,381	\$ 17,721	\$ (13,150)	\$ 4,571

Three Months Ended March 31, 2025	<u>Common Stock</u>		<u>Accumulated</u>	Total
	Shares	Amount	Deficit	
Balances at January 1, 2025	1,441	\$ 17,733	\$ (13,158)	\$ 4,575
Stock-based compensation expense	-	46	-	46
Share repurchases	(2)	(8)	-	(8)
Net income	-	-	183	183
Balances at March 31, 2025	1,439	\$ 17,771	\$ (12,975)	\$ 4,796

QUALSTAR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	March 31,	
	2026	2025
Cash flows from operating activities:		
Net income (loss)	\$ (62)	\$ 183
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1	2
Stock-based compensation expense	15	46
Realized and unrealized (gains) losses on marketable securities	(162)	11
Adjustment to reconcile operating lease expense to cash paid	1	1
Changes in operating assets and liabilities:		
Accounts receivable, net	48	-
Inventories	(463)	153
Prepaid expenses and other assets	(140)	(14)
Accounts payable	382	(287)
Accrued payroll and related liabilities	(4)	1
Deferred service revenue	119	28
Other liabilities	7	(16)
Net cash provided by (used in) operating activities	(258)	108
Cash flows from investing activities:		
(Purchases of) Proceeds from sale of marketable securities, net	(112)	(202)
Net cash (used in) investing activities	(112)	(202)
Cash flows from financing activities:		
Share repurchases	-	(8)
Net cash (used in) financing activities	-	(8)
Net (decrease) in cash and cash equivalents	(370)	(102)
Cash and cash equivalents at beginning of period	1,868	2,403
Cash and cash equivalents at end of period	<u>\$ 1,498</u>	<u>\$ 2,301</u>
Supplemental disclosure of cash flow information:		
Income taxes paid	<u>\$ -</u>	<u>\$ 2</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>

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 re-incorporated in Nevada in April 2026. It 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; and 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.

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. 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: 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.

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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 March 31, 2026, we had deferred service revenue of approximately \$1,117,000. At December 31, 2025, we had deferred service revenue of approximately \$998,000.

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	
	March 31,	
	2026	2025
	(In thousands)	
Revenue recognized at a point in time	\$ 1,237	\$ 1,398
Revenue recognized over time	188	261
Total revenue	<u>\$ 1,425</u>	<u>\$ 1,659</u>

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.

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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:

	March 31, 2026	December 31, 2025
	(In thousands)	
Accounts receivable, gross	\$ 631	\$ 681
Allowance for expected credit losses	(4)	(6)
Accounts receivable, net	\$ 627	\$ 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, 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.

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

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:

	Three Months Ended March 31, 2026	Three Months Ended March 31, 2025
	(In thousands)	
Warranty liability, beginning of period	\$ 49	\$ 38
Warranties issued, settlements made, and changes in estimate, net	6	4
Warranty liability, end of period	\$ 55	\$ 42

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 March 31, 2026 and 2025 were \$15,000 and \$40,000, 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

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

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 March 31, 2026, we recorded net gains on our marketable securities of approximately \$162,000, of which \$3,000 was realized and \$159,000 was unrealized. For the three months ended March 31, 2025, we recorded net losses on our marketable securities of approximately \$(11,000), 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 three month ended March 31, 2026 and 2025, we recorded net foreign currency transaction gains (losses) of approximately \$(1,000) and \$19,000, 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.

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

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 May 5, 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:

	March 31, 2026	December 31, 2025
Inventories	(In thousands)	
Raw materials	\$ 115	\$ 108
Finished goods	2,546	2,091
Inventories	\$ 2,661	\$ 2,199

	March 31, 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	(748)	(747)
Property and equipment, net	\$ 18	\$ 19

Depreciation and amortization expense for the three months ended March 31, 2026 and 2025 was \$1,000 and \$2,000, respectively.

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

	March 31, 2026	December 31, 2025
Accrued payroll and related liabilities	(In thousands)	
Accrued salaries, wages, and payroll taxes	\$ 15	\$ 20
Accrued vacation	89	88
Accrued payroll and related liabilities	\$ 104	\$ 108
	March 31, 2026	December 31, 2025
Other liabilities	(In thousands)	
Accrued warranty	\$ 55	\$ 49
Accrued outside commissions	17	16
Other accrued liabilities	3	3
Other liabilities	\$ 75	\$ 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 March 31, 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 both March 31, 2026 and December 31, 2025, there were 4,142,559 shares of common stock outstanding.

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. 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 September 1, 2021 through December 31, 2025, the Company has repurchased 1,507,002 shares for an aggregate purchase price of \$1,487,000. During the three-month periods ended March 31, 2026 and 2025, the Company did not repurchase any shares.

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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	
	March 31,	
	2026	2025
Net income (loss)	\$ (62)	\$ 183
Weighted average outstanding shares of common stock - basic	4,143	4,230
Dilutive potential common shares from employee stock options	-	54
Weighted average outstanding shares of common stock - diluted	4,143	4,284
Earnings (loss) per share:		
Basic earnings (loss) per share	\$ (0.01)	\$ 0.04
Diluted earnings (loss) per share	\$ (0.01)	\$ 0.04

For the three months ended March 31, 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 March 31, 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.

QUALSTAR CORPORATION AND SUBSIDIARIES

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

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 approximately \$15,000 and \$46,000 were recorded in the three months ended March 31, 2026 and 2025, respectively.

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 March 31, 2026	633,900	\$ 1.95	4.44	\$ 1,829
Exercisable at March 31, 2026	633,900	\$ 1.95	4.44	\$ 1,829

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 each of the three-month periods ended March 31, 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 March 31,			
	2026		2025	
North America	\$ 800	56.1 %	\$ 1,066	64.3 %
Europe	504	35.4	414	25.0
Asia Pacific	120	8.4	162	9.8
Other	1	0.1	17	1.0
	\$ 1,425	100.0 %	\$ 1,659	100.0 %

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

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, 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 9, 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.

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

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 three months ended March 31, 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. As of March 31, 2026, 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 March 31, 2026, the Company had right-of-use assets of \$204,000 and current and long-term operating lease liabilities of \$155,000 and \$54,000, 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 March 31, 2026 totaled approximately \$10,000 (weighted average discount rate of 6.5%). The weighted average remaining lease term of the Company’s leases as of March 31, 2026 is approximately 1.3 years.

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

	Minimum Lease Payment
2026 (remainder of year)	\$ 123
2027	96
Total undiscounted future non-cancelable minimum lease payments	219
Less: Imputed interest	(10)
Present value of lease liabilities	<u>\$ 209</u>

QUALSTAR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

During the three months ended March 31, 2026 and 2025, we incurred approximately \$33,000 and \$54,000, 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 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 March 31, 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 \$7,000 and \$6,000 during the three months ended March 31, 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 for 2026 and 2025. 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.

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

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

	Three Months Ended	
	March 31,	
	2026	2025
(In thousands)		
Revenues		
Data Storage:		
Product	\$ 1,100	\$ 971
Service	188	261
Total Data Storage	1,288	1,232
Power Supplies	137	427
Revenues	<u>\$ 1,425</u>	<u>\$ 1,659</u>

	Three Months Ended	
	March 31,	
	2026	2025
(In thousands)		
Income (Loss) Before Taxes		
Data Storage	\$ 12	\$ 242
Power Supplies	(74)	(59)
Income (loss) before taxes	<u>\$ (62)</u>	<u>\$ 183</u>

	March 31,	December 31,
	2026	2025
	(In thousands)	
Total Assets		
Data Storage		
Cash and cash equivalents	\$ 1,396	\$ 1,777
Marketable securities	1,217	943
Accounts receivable, net	604	672
Inventories	1,466	976
Prepaid expenses and other current assets	535	395
Property and equipment, net	14	15
Right-of-use assets	204	240
Other assets	49	49
Total Data Storage assets	<u>5,485</u>	<u>5,067</u>
Power Supplies		
Cash and cash equivalents	102	91
Accounts receivable, net	23	3
Inventories	1,195	1,223
Prepaid expenses and other current assets	5	5
Property and equipment, net	4	4
Other assets	23	23
Total Power Supplies assets	<u>1,352</u>	<u>1,349</u>
Total Assets	<u>\$ 6,837</u>	<u>\$ 6,416</u>

QUALSTAR CORPORATION AND SUBSIDIARIES

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

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 March 31,			
	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	-	39	-	49
Paid by Interlink to Qualstar	-	(25)	-	-
Billed (or accrued) to Qualstar by Interlink	67	-	121	-
Paid by Qualstar to Interlink	(17)	-	(118)	-
Balance at March 31,	\$ 55	\$ 39	\$ 11	\$ 61

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 \$42,900, respectively, at March 31, 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 months ended March 31, 2026 and 2025.

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 re-incorporated in Nevada in April 2026. It 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; and, 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 March 31,			
	2026		2025	
	Amount	% of Revenues	Amount	% of Revenues
Data storage revenues	\$ 1,288	90.4 %	\$ 1,232	74.3 %
Power supplies revenues	137	9.6	427	25.7
Revenues	1,425	100.0	1,659	100.0
Cost of goods sold	1,055	74.0	1,050	63.3
Gross profit	370	26.0	609	36.7
Operating expenses:				
Engineering	43	3.0	60	3.6
Sales and marketing	216	15.2	112	6.8
General and administrative	347	24.4	302	18.2
Total operating expenses	606	42.5	474	28.6
Income (loss) from operations	(236)	(16.6)	135	8.1
Other income (expense), net	174	12.2	48	2.9
Income (loss) before taxes	(62)	(4.4)	183	11.0
Provision for income taxes	-	-	-	-
Net income (loss)	\$ (62)	(4.4) %	\$ 183	11.0 %

QUALSTAR CORPORATION AND SUBSIDIARIES

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

Revenues:

	Three Months Ended March 31,				Change	
	2026		2025			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Data storage revenues	\$ 1,288	90.4 %	\$ 1,232	74.3 %	\$ 56	4.5 %
Power supplies revenues	137	9.6	427	25.7	(290)	(67.9)
Revenues	<u>\$ 1,425</u>	<u>100.0 %</u>	<u>\$ 1,659</u>	<u>100.0 %</u>	<u>\$ (234)</u>	<u>(14.1) %</u>

The fluctuations in revenues for the three months ended March 31, 2026 compared to the prior year are attributable to the segment-specific factors described below.

Segment Revenue

Data Storage – For the three months ended March 31, 2026 compared to the same quarter last year, data storage revenues were up 5%, which was attributable to a 13% increase in product revenue from higher shipments of our tape-based data storage products and solutions, and a 28% decrease in revenues from technical service and support contracts.

Power Supplies – The 70% decrease in power supplies revenues in the three-month period ended March 31, 2026 compared to the prior-year period was due to decreased customer demand and order fulfillment of our power supplies products.

Gross Profit:

	Three Months Ended March 31,				Change	
	2026		2025			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Gross profit	\$ 370	26.0 %	\$ 609	36.7 %	\$ (239)	(39.2) %

The decreases in gross profit and gross margin percentage for the three months ended March 31, 2026 compared to the same quarter last year were due to lower revenue in the current year and also to changes in the mix of sales of data storage products and power supplies products sold.

Operating Expenses:

	Three Months Ended March 31,				Change	
	2026		2025			
	Amount	% of Revenues	Amount	% of Revenues	\$	%
Engineering	\$ 43	3.0 %	\$ 60	3.6 %	\$ (17)	(28.3) %
Sales and marketing	216	15.2	112	6.8	104	92.9
General and administrative	347	24.4	302	18.2	45	14.9
Total operating expenses	<u>\$ 606</u>	<u>42.5 %</u>	<u>\$ 474</u>	<u>28.6 %</u>	<u>\$ 132</u>	<u>27.8 %</u>

Engineering

Engineering expenses were down for the three-month period ended March 31, 2026 compared to the same quarter last year due to a decrease in power supplies product-development costs.

Sales and Marketing

Sales and marketing expenses increased for the three-month period ended March 31, 2026 compared to the same

QUALSTAR CORPORATION AND SUBSIDIARIES

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

quarter last year due to higher costs on marketing and promotional activities and trade shows, and also due to prior year including the benefit of approximately \$56,000 of Employee Retention Credits (ERCs).

General and Administrative

General and administrative costs increased for the three months ended March 31, 2026 compared to the same quarter last year due primarily to prior year including the benefit of approximately \$39,000 of ERCs.

Other Income (Expense), net

Other income (expense), net for the three months ended March 31, 2026 included \$14,000 of interest income, \$(1,000) of losses on foreign currency exchange, and \$162,000 of gains on marketable securities. Other income (expense) for the three months ended March 31, 2025 included \$40,000 of interest income, \$19,000 of gains on foreign currency exchange, and \$(11,000) of losses on marketable securities.

Liquidity and Capital Resources

Cash and cash equivalents decreased \$370,000 to \$1,498,000 at March 31, 2026, from \$1,868,000 at December 31, 2025.

Operating Activities

Net cash used in operating activities was \$258,000 for the three months ended March 31, 2026, compared with cash provided by operating activities of \$108,000 for 2025. Cash used in operating activities in 2026 was the result of net loss of \$62,000, non-cash expenses of \$17,000, non-cash gains on marketable securities of \$162,000, and cash used in changes in operating assets and liabilities of \$51,000. Cash provided by operations in 2025 was the result of net income of \$183,000, non-cash expenses of \$49,000, losses on marketable securities of \$11,000, and cash used in changes in operating assets and liabilities of \$135,000.

Investing Activities

Cash used in investing activities for the three months ended March 31, 2026 consisted of \$112,000 of net purchases of marketable securities. Cash used in investing activities for the three months ended March 31, 2025 consisted of \$202,000 of net purchases of marketable securities.

Financing Activities

No cash was provided by or used in financing activities for the three months ended March 31, 2026. Cash used in financing activities for the three months ended March 31, 2025 consisted of \$8,000 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.