

QUALSTAR CORP  
Form PREC14A  
May 24, 2013

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934

Filed by the Registrant

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Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

QUALSTAR CORPORATION  
(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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Date Filed:

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May [\_\_\_], 2013

Dear Shareholder:

You are cordially invited to attend the 2013 Annual Meeting of Shareholders of Qualstar Corporation, a California corporation (“Qualstar,” the “Company,” or “we”), to be held on \_\_\_\_\_, 2013, at the corporate offices of Qualstar, located at 3990-B Heritage Oak Court, Simi Valley, California 93063, beginning at 9:30 a.m. Pacific Time (including any adjournment, postponement, continuation or rescheduling thereof, the “2013 Annual Meeting”). At this meeting you will be asked to vote on each of the five proposals set forth in the attached Notice of 2013 Annual Meeting and Proxy Statement, which contains detailed information about each proposal and other matters related to the 2013 Annual Meeting.

We have received a letter from BKF Capital Group, Inc., a company controlled by Steven N. Bronson (collectively, the “BKF Capital Group”), which owns approximately 18.7% of Qualstar’s common stock, expressing their intention to nominate their own slate of nominees for election as directors at the 2013 Annual Meeting in opposition to the five director candidates we have nominated. While we do not know whether the BKF Capital Group will in fact solicit proxies or nominate persons for election as directors at the 2013 Annual Meeting, you may receive an opposing proxy statement and proxy card and letters or other proxy solicitation materials from the BKF Capital Group. Please be advised that we are not responsible for the accuracy of any information provided by or relating to the BKF Capital Group contained in any proxy solicitation materials filed or disseminated by the BKF Capital Group or any other statements that they may otherwise make.

Your Board of Directors has not approved or endorsed any of the BKF Capital Group’s nominees for election as directors and strongly urges you NOT to sign or return any proxy card that the BKF Capital Group may send to you. Even a “WITHHOLD” vote with respect to the BKF Capital Group’s nominees on its proxy card will cancel any previously submitted WHITE proxy card. If you do sign a proxy card sent to you by the BKF Capital Group, however, you have the right to change your vote by using the enclosed WHITE proxy card. Only the latest dated proxy card you vote will be counted.

**THE BOARD OF DIRECTORS STRONGLY URGES YOU NOT TO SIGN OR RETURN ANY PROXY CARD OR VOTING INSTRUCTION CARD THAT YOU MAY RECEIVE FROM THE BKF CAPITAL GROUP, EVEN AS A PROTEST VOTE AGAINST THE BKF CAPITAL GROUP OR THE BKF CAPITAL GROUP’S NOMINEES.**

We believe that the five (5) nominees proposed by your Board, with their breadth of relevant and diverse experience, represents the best interests of our shareholders and should be elected. Accordingly, your Board of Directors unanimously recommends that you vote FOR the following five (5) nominees: Allen H. Alley, Chester Baffa, Lawrence D. Firestone, Gerald J. Laber and Daniel C. Molhoek, using the enclosed WHITE proxy card. Your VOTE is important to the future of Qualstar. We appreciate your support and look forward to seeing you at the 2013 Annual Meeting. Whether or not you plan to attend the 2013 Annual Meeting, please vote your shares using the Internet, the phone, or by mail by returning the WHITE proxy card enclosed.

If you have any questions or require any assistance with voting your shares, please contact our proxy solicitor: MacKenzie Partners, Inc., toll-free at (800) 322-2885.

It is important that your shares be represented. Therefore, even if you presently plan to attend the 2013 Annual Meeting, please complete, sign and date and promptly return the enclosed proxy card in the envelope provided. If you do attend the 2013 Annual Meeting and wish to vote in person, you may withdraw your proxy at that time.

I look forward to seeing you at the 2013 Annual Meeting.

Sincerely,

Lawrence D. Firestone  
Chief Executive Officer and President

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QUALSTAR CORPORATION  
3990-B Heritage Oak Court  
Simi Valley, California 93063

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NOTICE OF THE 2013 ANNUAL MEETING OF SHAREHOLDERS  
To be held on \_\_\_\_\_, 2013

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NOTICE IS HEREBY GIVEN that the 2013 Annual Meeting of Shareholders (including any adjournment, postponement, continuation or rescheduling thereof, the "2013 Annual Meeting") of Qualstar Corporation ("Qualstar," the "Company," or "we") will be held at the corporate offices of Qualstar, located at 3990-B Heritage Oak Court, Simi Valley, California 93063, on \_\_\_\_\_, 2013, at 9:30 a.m. Pacific Time, for the following purposes:

1. To elect five directors to serve one year terms expiring at the 2014 Annual Meeting of Shareholders, or until their successors have been duly elected and qualified;
2. To ratify the adoption by the Board of Directors of the Rights Agreement, dated February 5, 2013, by and between Qualstar and Corporate Stock Transfer, Inc., as Rights Agent;
3. To authorize the Board of Directors to adjourn the 2013 Annual Meeting in the event the meeting is convened and a quorum is present but there are not sufficient votes to ratify the adoption of the Rights Agreement, in order to enable the Board to solicit additional proxies;
4. To approve amendment and restatement of the Qualstar Corporation 2008 Stock Incentive Plan;
5. To approve the appointment of SingerLewak LLP as the independent registered public accounting firm to audit our financial statements for the fiscal year ending June 30, 2013; and
6. To transact any other business as may properly come before the 2013 Annual Meeting and any adjournment thereof.

More information on all of these matters is included in the accompanying Proxy Statement. Shareholders of record at the close of business on May 20, 2013, are entitled to notice of, and to vote at, the 2013 Annual Meeting and any adjournment or postponement thereof. All shareholders are cordially invited to attend the 2013 Annual Meeting in person.

Your Board of Directors unanimously recommends that you vote FOR the Board's five (5) nominees: Allen H. Alley, Chester Baffa, Lawrence D. Firestone, Gerald J. Laber and Daniel C. Molhoek.

By Order of the Board of Directors

John D. Pirnot  
Secretary  
Simi Valley, California  
\_\_\_\_\_[ ], 2013

YOUR VOTE IS IMPORTANT. THEREFORE, WHETHER OR NOT YOU PLAN TO ATTEND THE 2013 ANNUAL MEETING YOU SHOULD COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD, AND RETURN IT IN THE PREAMDRESSED ENVELOPE PROVIDED. NO POSTAGE IS NECESSARY IF MAILED IN THE UNITED STATES.

IMPORTANT NOTICE regarding the availability of proxy materials for the 2013 Annual Meeting of Shareholders to be held on \_\_\_\_\_, 2013: This Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended June 30, 2012 are available on Qualstar's website at [www.qualstar.com](http://www.qualstar.com).

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QUALSTAR CORPORATION  
3990-B Heritage Oak Court  
Simi Valley, California 93063

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PROXY STATEMENT

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2013 ANNUAL MEETING OF SHAREHOLDERS  
To be held on [     ], 2013

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This Proxy Statement is being furnished by the Board of Directors (the “Board”) of Qualstar Corporation, a California corporation (“Qualstar,” the “Company,” or “we”), in connection with the solicitation of proxies for the 2013 Annual Meeting of Shareholders (including any adjournment, postponement, continuation or rescheduling thereof, the “2013 Annual Meeting”) to be held on \_\_\_\_\_, 2013 at the corporate offices of Qualstar, located at 3990-B Heritage Oak Court, Simi Valley, California 93063, at 9:30 a.m. Pacific Time. This Proxy Statement contains important information about the business matters that will be voted on at the 2013 Annual Meeting.

GENERAL INFORMATION

Why am I receiving these materials?

We sent you this Proxy Statement because your Board is soliciting your proxy to vote at the 2013 Annual Meeting. This Proxy Statement summarizes the information you need to vote at the 2013 Annual Meeting. You do not need to attend the 2013 Annual Meeting to vote your shares of Qualstar’s common stock, no par value (the “Common Shares”). This Proxy Statement, the accompanying WHITE proxy card and our annual report on Form 10-K for the fiscal year ended June 30, 2012 are being made available to shareholders beginning on or about \_\_\_\_\_, 2013. Please read this Proxy Statement, as it contains important information you need to know to vote at the 2013 Annual Meeting.

What proposals will be voted on at the 2013 Annual Meeting?

At the 2013 Annual Meeting, you will be asked to consider and vote upon the following matters:

- Election of five directors to each serve until the 2014 Annual Meeting of Shareholders and until their respective successors shall have been duly elected and qualified (Proposal 1);
- Ratification of the adoption by the Board of Directors of the Rights Agreement dated February 5, 2013 (Proposal 2);
- Authorization for the Board of Directors to adjourn the 2013 Annual Meeting in the event the meeting is convened and a quorum is present but there are not sufficient votes to ratify the adoption of the Rights Agreement, in order to enable the Board to solicit additional proxies (Proposal 3);

- Approval of the amendment and restatement of Qualstar Corporation 2008 Stock Incentive Plan (Proposal 4);
- Approval of the appointment of SingerLewak LLP as the independent registered public accounting firm for the fiscal year ending June 30, 2013 (Proposal 5); and
- Any other matters, if any, as may properly be brought before the 2013 Annual Meeting and any postponement or adjournment of the 2013 Annual Meeting.



When and where will the 2013 Annual Meeting be held?

The 2013 Annual Meeting will be held on \_\_\_\_\_, 2013, at 9:30 a.m. Pacific Time, at the corporate offices of Qualstar, located at 3990-B Heritage Oak Court, Simi Valley, California 93063.

Will there be a proxy contest for the election of directors at the 2013 Annual Meeting?

On January 18, 2013, we received a letter from the BKF Capital Group (“BKF Capital”), a company controlled by Steven N. Bronson (collectively, the “BKF Capital Group”), which owns approximately 18.7% of Qualstar’s common stock, expressing their intention to nominate their own slate of nominees for election as directors at the 2013 Annual Meeting, in opposition to the five director candidates we have nominated. While Qualstar does not know whether the BKF Capital Group will in fact solicit proxies or nominate persons for election as directors at the 2013 Annual Meeting, you may receive an opposing proxy statement and proxy card and letters or other proxy solicitation materials from the BKF Capital Group. We are not responsible for the accuracy of any information provided by or relating to the BKF Capital Group contained in any proxy solicitation materials filed or disseminated by, or on behalf of, the BKF Capital Group or any other statements that they may otherwise make.

Your Board has not approved or endorsed the nominees of the BKF Capital Group and strongly urges you not to sign or return any proxy card that the BKF Capital Group may send to you and to discard any proxy materials and proxy cards that you may receive from the BKF Capital Group. We believe that the five nominees proposed by your Board, with their breadth of relevant and diverse experience, represent the best interests of our shareholders and that the Board’s five nominees should be elected. Your Board unanimously recommends that you vote FOR all the Board’s nominees (Allen H. Alley, Chester Baffa, Lawrence D. Firestone, Gerald J. Laber and Daniel C. Molhoek), using the enclosed WHITE proxy card or by voting by Internet or telephone as described in this proxy statement.

What do I do if I receive a proxy card from the BKF Capital Group?

**THE BOARD OF DIRECTORS STRONGLY URGES YOU NOT TO SIGN OR RETURN ANY PROXY CARD OR VOTING INSTRUCTION CARD THAT YOU MAY RECEIVE FROM THE BKF CAPITAL GROUP, EVEN AS A PROTEST VOTE AGAINST THE BKF CAPITAL GROUP OR THE BKF CAPITAL GROUP’S NOMINEES.**

Even a “WITHHOLD” vote with respect to the BKF Capital Group’s nominees on their proxy card will cancel any proxy previously given to Qualstar.

If you previously signed a proxy card sent to you by the BKF Capital Group, you can change or revoke that proxy and vote for the Board of Directors’ nominees by (i) visiting the website noted on the WHITE proxy card to submit your vote on the Internet, (ii) using the telephone number on the WHITE proxy card to submit your vote telephonically, (iii) signing, dating and returning the WHITE proxy card in the enclosed envelope to vote by mail, or (iv) attending the 2013 Annual Meeting to vote in person. Only your latest-dated proxy will be voted at the 2013 Annual Meeting.

If you need assistance changing or revoking your vote, please call Qualstar’s proxy solicitor, MacKenzie Partners, Inc., toll free at (800) 322-2885.

Who is entitled to vote at the 2013 Annual Meeting?

Your Board of Directors has fixed the close of business on May 20, 2013 as the record date for determining those shareholders entitled to notice of, and to vote on, all matters that may properly come before the 2013 Annual Meeting. As of the record date, Qualstar had 12,253,117 outstanding shares of common stock entitled to notice of, and to vote at, the 2013 Annual Meeting. No other securities are entitled to vote at the 2013 Annual Meeting. Only shareholders

of record on such date are entitled to notice of and to vote at the 2013 Annual Meeting and at any adjournment thereof.

What are the voting rights of shareholders?

Each shareholder of record is entitled to one vote for each share held as of the record date on all matters to come before the 2013 Annual Meeting and at any adjournment thereof. Under our Articles of Incorporation, shareholders do not have cumulative voting rights in the election of directors.

How many votes must be present to hold the 2013 Annual Meeting?

To conduct business at the 2013 Annual Meeting, a quorum must be present. The presence in person or by proxy of shareholders entitled to cast at least a majority of all votes entitled to be cast at the meeting shall constitute a quorum. We count proxies marked "withhold authority" as to any director nominee or "abstain" as to a particular proposal as well as broker non-votes for purposes of determining the presence or absence of a quorum at the 2013 Annual Meeting for the transaction of business.

How do I vote my shares?

In addition to voting in person at the 2013 Annual Meeting or any postponement or adjournment thereof, you may vote by mail, Internet or telephone.

**Voting by Internet or Telephone.** If you are a registered shareholder (that is, if your stock is registered in your name), you may also vote by Internet or telephone by following the instructions included with your WHITE proxy card. You are encouraged to vote electronically by Internet or telephone. The procedures for each of these voting methods is set forth below.

**Vote by Internet.** Use the Internet to vote your proxy 24 hours a day, 7 days a week. Have your WHITE proxy card in hand when you log on. You will be prompted to enter your Control Number(s) which is located on your proxy card and then follow the directions given to obtain your records and create a voting instructions form.

**Vote by Telephone.** Use any touch-tone telephone to vote your proxy 24 hours a day, 7 days a week. Have your WHITE proxy card in hand when you call. You will be prompted to enter your Control Number(s) which is located on your WHITE proxy card and then follow the directions given.

If you vote by Internet or telephone, you do not need to return your WHITE proxy card.

If your shares are held in “street name” (that is, if your stock is registered in the name of your broker, bank or other nominee), please check your proxy card or contact your broker, bank or other nominee to determine whether you will be able to vote by Internet or telephone.

If you need assistance in revoking your proxy or changing your vote, please call Qualstar’s proxy solicitor, MacKenzie Partners Inc., toll free at (800) 322-2885.

**Voting by Mail.** To vote by mail, please sign, date and return to Qualstar as soon as possible the enclosed WHITE proxy card. An envelope with postage paid, if mailed in the United States, is provided for this purpose. Properly executed proxies that are received in time and not subsequently revoked will be voted as instructed on the proxies. If you vote by Internet or by telephone as described above, you need not also mail a proxy to Qualstar.

**Voting at the 2013 Annual Meeting.** You may vote by ballot in person at the 2013 Annual Meeting. If you want to vote by ballot, and you hold your shares in street name (that is, through a bank or broker), you must obtain a power of attorney or other proxy authority from that organization and bring it to the 2013 Annual Meeting. Follow the instructions from your bank, broker or other agent or nominee included with these proxy materials, or contact your bank, broker or other agent or nominee to request a power of attorney or other proxy authority. Even if you plan to attend the 2013 Annual Meeting, you are encouraged to submit a WHITE proxy card or vote by Internet or telephone to ensure that your vote is received and counted. If you vote in person at the 2013 Annual Meeting, you will revoke any prior proxy you may have submitted.

How does the Board of Directors recommend that I vote?

Your Board of Directors unanimously recommends that you vote as follows:

o “FOR” each of the following five (5) nominees to the Board: Allen H. Alley, Chester Baffa, Lawrence D. Firestone, Gerald J. Laber and Daniel C. Molhoek (Proposal 1);

o

“FOR” the proposal to ratify the adoption by the Board of Directors of the Rights Agreement dated February 5, 2013 (Proposal 2);

o“FOR” the proposal to authorize the Board of Directors to adjourn the 2013 Annual Meeting in the event the meeting is convened and a quorum is present but there are not sufficient votes to ratify the adoption of the Rights Agreement, in order to enable the Board to solicit additional proxies (Proposal 3);

o“FOR” approval of amendment and restatement of Qualstar Corporation 2008 Stock Incentive Plan (Proposal 4); and

o“FOR” approval of the appointment of SingerLewak LLP as the independent registered public accounting firm for the fiscal year ending June 30, 2013 (Proposal 5).

What vote is required?

Directors are elected by a plurality of the votes cast for election of directors and only five directors may be elected at the 2013 Annual Meeting. The directors elected will be the five (5) nominees who receive the highest number of "FOR" votes cast at the 2013 Annual Meeting by shareholders present, in person, or by proxy, and entitled to vote. If a shareholder does not vote for the election of directors because the authority to vote is withheld, because a proxy is not returned, because the broker holding the shares does not vote, or because of some other reason, the shares will not count in determining the total number of votes for each nominee. WHITE Proxies signed and returned unmarked will be voted FOR the Board's five (5) nominees (Allen H. Alley, Chester Baffa, Lawrence D. Firestone, Gerald J. Laber and Daniel C. Molhoek). Please note that brokers may not vote on the election of directors in the absence of specific client instruction. Those who hold shares in a brokerage account are encouraged to provide voting instructions to their broker. Votes that are not returned, withheld or broker non-votes will have no effect on the outcome of the election. If any nominee is unable to act as director because of an unexpected occurrence, the proxy holders may vote the proxies for another person or the Board of Directors may reduce the number of directors to be elected.

For each of Proposal 2 (ratification of Rights Agreement), Proposal 3 (authorization to adjourn the 2013 Annual Meeting), Proposal 4 (amended and restated Stock Incentive Plan) and Proposal 5 (appointment of SingerLewak LLP), approval will require the affirmative vote of a majority of the shares present or represented and voting on the matter at the Annual Meeting.

Proxies marked "abstain" as to Proposal 2, 3, 4 or 5 and broker non-votes will not be counted in determining the total number of shares voting on Proposal 2, 3, 4 or 5 and, therefore, will have no effect on whether the proposal is approved.

If I give a proxy, how will my shares be voted?

WHITE proxy cards received by us before the 2013 Annual Meeting that are properly executed and dated will be voted at the 2013 Annual Meeting in accordance with the instructions indicated on the proxy.

If you properly execute and date your WHITE proxy card but do not include voting instructions, your WHITE proxy card will be voted FOR the election of each of the following five (5) director nominees: Allen H. Alley, Chester Baffa, Lawrence D. Firestone, Gerald J. Laber and Daniel C. Molhoek, and FOR Proposals 2, 3, 4 and 5, and in accordance with the best judgment of the named proxies on any other matters that may come before the meeting. Unsigned proxies will not be voted.

If you vote using the website or the telephone number noted on the WHITE proxy card, you do not need to return ANY proxy card.

If the 2013 Annual Meeting is postponed or adjourned, a shareholder's proxy will remain valid and may be voted at the postponed or adjourned meeting. A shareholder still will be able to revoke the shareholder's proxy until it is voted.

What if other matters are voted on at the 2013 Annual Meeting?

With respect to any other matter that properly comes before the 2013 Annual Meeting, the proxy holders will vote the proxies in their discretion in accordance with their best judgment and in the manner they believe to be in the best interest of Qualstar. For example, if you do not give instructions on your WHITE proxy card or by Internet or telephone, and a nominee for Director listed on the WHITE proxy card withdraws before the election (which is not now anticipated), your shares will be voted by the proxy holders for any substitute nominee as may be nominated by the Board of Directors. The proxy holders consist of Lawrence D. Firestone and John D. Pirnot.

On the date we filed this Proxy Statement with the Securities and Exchange Commission, the Board did not know of any other matter to be brought before the 2013 Annual Meeting.

How will my shares be voted if I mark “Abstain” on my proxy card?

We will count a properly executed WHITE proxy card marked “Abstain” as present for purposes of determining whether a quorum is present, but the shares represented by that WHITE proxy card will not be voted at the 2013 Annual Meeting for the proposals so marked. Because only votes cast on the proposals presented at the 2013 Annual Meeting will determine the outcome of any vote on the proposals, if you mark your WHITE proxy card “Abstain” with respect to any proposal, your proxy will not affect the outcome of that proposal other than to reduce the number of votes cast.

Will my shares be voted if I do not provide instructions to my broker or nominee?

If your shares are held in your name, you must return your proxy, vote by telephone or via the Internet, or attend the 2013 Annual Meeting in person in order to vote on the proposals. If your shares are held in street name and you do not vote your proxy, your brokerage firm may either:

- vote your shares on routine matters; or
- leave your shares unvoted.

Under the rules that govern brokers who have record ownership of shares that are held in street name for their clients, brokers may vote such shares on behalf of their clients with respect to routine matters, but not with respect to non-routine matters. If the proposals to be acted upon at any meeting include both routine and non-routine matters, the broker may turn in a proxy card for uninstructed shares that vote FOR the routine matters, but the broker may not vote on non-routine matters. The election of directors (Proposal 1), the ratification of the Rights Agreement (Proposal 2), the authorization to adjourn the 2013 Annual Meeting (Proposal 3) and approval of the amended and restated 2008 Stock Incentive Plan (Proposal 4) are matters considered non-routine under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and, therefore, there may be broker non-votes on Proposals 1, 2, 3 and 4. Broker non-votes will be counted for the purpose of determining the presence of a quorum, but will not be counted for the purpose of determining the number of votes cast.

Can I revoke my proxy or change my vote?

An executed proxy may be revoked at any time before its exercise by delivering to the Secretary of Qualstar a written notice of revocation or a duly executed proxy bearing a later date. Prior to the date of the 2013 Annual Meeting, any notice of revocation or subsequent proxy must be delivered to our Secretary at 3990-B Heritage Oak Court, Simi Valley, California 93063, the principal executive office of Qualstar. On the date of the 2013 Annual Meeting, such notice or subsequent proxy should be delivered in person at the 2013 Annual Meeting prior to the time of the vote. Accordingly, the execution of the enclosed proxy will not affect a shareholder's right to vote in person should such shareholder find it convenient to attend the 2013 Annual Meeting and desire to vote in person, so long as the shareholder has revoked his or her proxy prior to its exercise in accordance with these instructions. If you have instructed a broker to vote your shares, you must follow your broker's directions in order to change those instructions.

What does it mean if I receive more than one WHITE proxy card?

If you hold your shares in more than one account, you will receive a WHITE proxy card for each account. To ensure that all of your shares are voted, please vote using each WHITE proxy card you receive or, if you vote by Internet or telephone, you will need to enter each of your Control Numbers. Remember, you may vote by telephone or Internet or by signing, dating and returning the WHITE proxy card in the postage-paid envelope provided.

As previously noted, the BKF Capital Group has provided notice that it intends to nominate an opposition slate of nominees for election as directors at the 2013 Annual Meeting. As a result, you may receive proxy cards from both Qualstar and the BKF Capital Group. To ensure that shareholders have Qualstar's latest proxy information and materials to vote, the Board may conduct multiple mailings prior to the date of the 2013 Annual Meeting, each of which will include a WHITE proxy card. The Board encourages you to vote each WHITE proxy card you receive.

**THE BOARD STRONGLY URGES YOU TO REVOKE ANY PROXY CARD YOU MAY HAVE RETURNED WHICH YOU RECEIVED FROM THE BKF CAPITAL GROUP.** Even a vote "WITHHOLD" with respect to the BKF Capital Group's nominees on their proxy card will cancel any previously submitted WHITE proxy card.

THE BOARD OF DIRECTORS STRONGLY URGES YOU NOT TO SIGN OR RETURN ANY PROXY CARD OR VOTING INSTRUCTION CARD THAT YOU MAY RECEIVE FROM THE BKF CAPITAL GROUP, EVEN AS A PROTEST VOTE AGAINST THE BKF CAPITAL GROUP OR THE BKF CAPITAL GROUP'S NOMINEES.

Who will solicit proxies on behalf of the Board?

Proxies may be solicited on behalf of the Board, without additional compensation, by Qualstar's directors, officers and regular employees. Such persons are listed in Appendix I to this Proxy Statement. Additionally, the Board has retained MacKenzie Partners, Inc., a proxy solicitation firm, who may solicit proxies on the Board's behalf.

The original solicitation of proxies by mail may be supplemented by telephone, telegram, facsimile, electronic mail, and personal solicitation by our directors, officers or other regular employees (who will receive no additional compensation for such solicitation activities). You may also be solicited by advertisements in periodicals, press releases issued by us and postings on our corporate website. Unless expressly indicated otherwise, information contained on our corporate website is not part of this Proxy Statement.



Who will bear the cost of the solicitation of proxies?

The entire cost of soliciting proxies, including the costs of preparing, assembling, printing and mailing this Proxy Statement, the proxy card and any additional soliciting materials furnished to shareholders, will be borne by Qualstar. Copies of solicitation material will be furnished to banks, brokerage houses, dealers, banks, voting trustees, their respective nominees and other agents holding shares in their names, which are beneficially owned by others, so that they may forward this solicitation material, together with our Annual Report on Form 10-K for the fiscal year ended June 30, 2012, to beneficial owners. In addition, if asked, we will reimburse these persons for their reasonable expenses in forwarding these materials to the beneficial owners.

Due to the possibility of a proxy contest, we have engaged MacKenzie Partners Inc. to solicit proxies from shareholders in connection with the 2013 Annual Meeting. MacKenzie Partners Inc. expects that approximately [ ] of its employees will assist in the solicitation of proxies. We will pay MacKenzie Partners, Inc. an estimated fee of \$[ ] plus costs and expenses. In addition, MacKenzie Partners, Inc. and certain related persons will be indemnified against certain liabilities arising out of or in connection with the engagement.

Qualstar estimates that its additional expenses beyond those normally associated with soliciting proxies for the 2013 Annual Meeting as a result of the potential proxy contest (excluding salaries and wages of our regular employees and officers) will be \$[ ] in the aggregate, of which approximately \$[ ] has been spent to date. Such additional solicitation costs are expected to include the fees incurred to retain MacKenzie Partners as Qualstar's proxy solicitor, as discussed above (at last year's 2012 Annual Meeting, no proxy solicitor was deemed necessary), fees of outside counsel to advise Qualstar in connection with a possible contested solicitation of proxies, increased mailing costs, such as the costs of additional mailings of solicitation materials to shareholders, including printing costs, mailing costs and the reimbursement of reasonable expenses of banks, brokerage houses and other agents incurred in forwarding solicitation materials to beneficial owners, as described above, and the costs of retaining an independent inspector of election.

May I attend the 2013 Annual Meeting?

Admission to the 2013 Annual Meeting will be by admission ticket only. Family members are welcome to accompany you to the 2013 Annual Meeting. If you are a registered shareholder, the top half of the enclosed WHITE proxy card is your admission ticket. Neither voting instruction forms provided by your bank, broker or nominee nor proxy cards provided by the BKF Capital Group will serve as valid admission tickets. Upon arrival at the 2013 Annual Meeting, please present your admission ticket and photo identification at the registration desk. If you hold your shares in "street name" (that is, through a broker or other nominee), you may request an admission ticket by writing or phoning Qualstar; you will need to bring to the 2013 Annual Meeting a letter from the broker or other nominee confirming your beneficial ownership of Qualstar shares as of the Record Date in addition to photo identification. Qualstar reserves the right to deny admittance to anyone who cannot adequately show proof of share ownership as of the record date. No cameras, recording equipment, large bags, briefcases or packages will be permitted into the 2013 Annual Meeting.

What is Qualstar's Internet address?

Qualstar's Internet address is <http://www.Qualstar.com>. You can access this Proxy Statement and Qualstar's Annual Report on Form 10-K for the fiscal year ended June 30, 2012 at this Internet address. Qualstar's filings with the Securities and Exchange Commission (the "SEC") are available free of charge via a link from this address. Unless expressly indicated otherwise, information contained on our website is not part of this Proxy Statement. In addition, none of the information on the other websites listed in this Proxy Statement is part of this Proxy Statement. These website addresses are intended to be inactive textual references only.



Who can answer my questions?

If you have questions or require assistance in the voting of your shares, please call MacKenzie Partners, Inc., the firm assisting us in the solicitation of proxies:

105 Madison Avenue  
New York, New York 10016  
(212) 929-5500 (Call Collect)  
or  
Call Toll-Free (800) 322-2885

How can I obtain additional copies of these materials or copies of other documents?

Complete copies of this proxy statement and our Annual Report on Form 10-K for the fiscal year ended June 30, 2012 are also available on our website at <http://www.Qualstar.com>. You may also contact MacKenzie Partners, Inc. for additional copies.

Your vote at this year's meeting is especially important, no matter how many or how few shares you own. Please sign and date the enclosed WHITE proxy card and return it in the enclosed postage-paid envelope promptly or vote by Internet or telephone.

The BKF Capital Group may send you solicitation materials in an effort to solicit your vote to elect their nominees to Qualstar's Board. **THE BOARD STRONGLY URGES YOU NOT TO SIGN OR RETURN ANY PROXY CARD OR VOTING INSTRUCTION CARD THAT YOU MAY RECEIVE FROM THE BKF CAPITAL GROUP, EVEN AS A PROTEST VOTE AGAINST THE BKF CAPITAL GROUP OR THE BKF CAPITAL GROUP'S NOMINEES.**

## BACKGROUND OF DISCUSSIONS WITH THE BKF CAPITAL GROUP

The following is a chronology of the material contacts and events in our relationship with the BKF Capital Group:

In February 2012, the BKF Capital Group sent a letter to Qualstar's board of directors recommending several corporate actions it believed could increase shareholder value. These actions included divesting Qualstar's tape library business, and distributing cash to shareholders from the sale of marketable securities held by Qualstar. Qualstar believed the adoption of these recommendations would be detrimental to Qualstar's long-term value and prospects. While communicating its appreciation to the BKF Capital Group for providing Qualstar with its input, Qualstar determined that shareholder value could be best maximized in ways that did not adversely affect Qualstar's long-term future and prospects.

On February 28, 2012, the BKF Capital Group released an open letter to Qualstar's shareholders urging them to withhold all of their votes for the incumbent directors at Qualstar's 2013 Annual Meeting of shareholders on March 21, 2012. The BKF Capital Group stated it was not seeking to effect a change of control of Qualstar at that time. At the 2013 Annual Meeting of shareholders on March 21, 2012, Qualstar's shareholders re-elected all six of Qualstar's nominees to the board.

On April 30, 2012, the BKF Capital Group sent a letter to Qualstar demanding that Qualstar hold a special shareholders meeting on June 20, 2012, with the stated purpose being to remove and replace the entire recently-re-elected board of directors. The special meeting of shareholders was held on June 20, 2012, and despite the urging of the BKF Capital Group, none of the current directors was removed by the shareholders.

On May 9, 2012, Qualstar announced that the Board had appointed Lawrence D. Firestone to the position of Chief Executive Officer and President of Qualstar. In the press release announcing Mr. Firestone's appointment, Qualstar also indicated that Mr. Firestone would commence his new position by June 4, 2012. Mr. Firestone had been a director of Qualstar since May 2011 and, as President and Chief Executive Officer, continued to serve on the Board. Mr. Firestone brings to Qualstar over 30 years of operations and financial management experience in global public and private companies, including significant turnaround and M&A expertise.

On September 24, 2012, Qualstar announced a change in composition to the Board by the appointment of Daniel C. Molhoek, an attorney with the Varnum law firm and a seasoned advisor to public and private companies of all sizes, to the Board. Mr. Molhoek's practice includes capitalization and structuring of business entities, strategic and governance issues and structuring and negotiating mergers, acquisitions, joint ventures and strategic alliances. Simultaneously, Qualstar announced the resignation from the Board of Robert E. Rich, who is outside counsel for Qualstar and had been a member of the Board since 2000.

In November and December of 2012, Mr. Firestone attempted to speak with Mr. Bronson. Mr. Firestone was only afforded the opportunity to speak with Mr. Bronson's attorney.

On January 11, 2013, Qualstar, in an ongoing effort to enhance the composition of the Board announced the appointment of a seasoned technology executive, Allen Alley, to the Board. Mr. Alley brings to the Board over 30 years of operating and governance experience with private and public companies. He founded and led Pixelworks, a semiconductor company for plasma and LCDs and led its successful initial public offering. In addition, Mr. Alley has served as a member of the board of directors of several other public companies.

On January 18, 2013, Qualstar received a letter from the BKF Capital Group in which the BKF Capital Group stated that it intends to nominate director candidates to replace the entire current membership of the Board at the 2013 Annual Meeting.

On January 30, 2013, the BKF Capital Group commenced an unsolicited partial tender offer (the “Offer”) to purchase up to 3,000,000 shares of Qualstar’s common stock, or approximately 24.5% of Qualstar’s outstanding shares, at a price of \$1.65 per share in cash, without interest and less any applicable withholding taxes, subject to the terms and conditions set forth in the Tender Offer Statement on Schedule TO (together with the exhibits thereto, as amended, the “Schedule TO”) filed by the BKF Capital Group with the SEC. Had the Offer been completed and fully subscribed, the BKF Capital Group would have collectively owned approximately 43.2% of Qualstar’s outstanding shares. The BKF Capital Group indicated in its Schedule TO that one of the purposes of its unsolicited partial tender offer was to obtain a “controlling influence” over Qualstar.

On January 31, 2013, the Board met telephonically with management and representatives of Stradling Yocca Carlson & Rauth, P.C. (“Stradling Yocca”) and Alston & Bird LLP (“Alston & Bird”), Qualstar’s legal advisors, to preliminarily discuss the Offer. At this meeting, the Board authorized management to engage Needham & Company, LLC (“Needham & Company”) to serve as Qualstar’s financial advisor in connection with the Offer.

On the same day, Qualstar issued a press release confirming that it was aware of the Offer and indicating that the Board, in consultation with its financial and legal advisors, would carefully review and consider the Offer to determine the course of action that it believes is in the best interests of Qualstar and its shareholders. The press release also indicated that the Board intended to advise shareholders of its formal recommendation within ten business days by making available to shareholders and filing with the SEC a solicitation/recommendation statement on Schedule 14D-9. In addition, Qualstar advised its shareholders to take no action at this time pending the review of the Offer by the Board.

On February 5, 2013, the Board held a special telephonic meeting with management and representatives of Alston & Bird and Stradling Yocca, as well as with representatives of Needham & Company. At the meeting, the Board, after considering the advice of its financial and legal advisors, unanimously approved and adopted the Rights Agreement.

On February 6, 2013, Qualstar issued a press release announcing the adoption of the Rights Agreement. Qualstar stated in the press release that the Rights Agreement was intended to protect Qualstar and its shareholders from efforts to obtain control of Qualstar that the Board determines are not in the best interests of Qualstar and its shareholders, and to enable all shareholders to realize the long-term value of their investment in Qualstar. The press release also indicated that the Rights Agreement was not intended to interfere with any merger, tender or exchange offer or other business combination approved by the Board and that the Rights Agreement did not prevent the Board from considering any offer that it considers to be in the best interest of its shareholders. In addition, the press release noted Qualstar's intention to seek ratification from shareholders of the Rights Agreement.

On February 11, 2013, the BKF Capital Group issued a press release announcing that it intended to terminate the Offer. Later that day, the BKF Capital Group filed with the SEC an amendment to its Tender Offer Statement on Schedule TO terminating the Offer. The termination of the Offer occurred just hours before Qualstar was planning to file its Solicitation / Recommendation Statement on Schedule 14D-9 which would have contained the Board's recommendation to shareholders as to whether to tender their shares into BKF Capital's offer and the reasons for such recommendation.

On February 13, 2013, Qualstar issued a press release commenting on the announcement by the BKF Capital Group that it was abruptly terminating the Offer. In its press release, Qualstar indicated that, while the Offer's termination eliminated the need for the Board to make a recommendation or file a Schedule 14D-9 with the Securities and Exchange Commission, shareholders should be aware that it is the unanimous view of the Board, after careful review and consideration, and in consultation with its financial and legal advisors, that BKF Capital's Offer was inadequate and was not in the best interests of Qualstar and all of its shareholders.

On May 10, 2013, Qualstar issued a press release announcing that Gerald J. "Bud" Laber had been appointed to the Board effective May 8, 2013. Mr. Laber, a former audit partner with the accounting firm of Arthur Andersen, L.L.P., brings to the Board three decades of experience advising public and private companies on strategic transactions, accounting, and financial matters and extensive experience in corporate governance as a board member of the publicly-traded companies. With the addition of Mr. Laber, the Board has six independent directors, bringing the total size of the Board to seven directors.

On May 17, 2013, Qualstar issued a press release announcing that the Board had appointed Allen Alley, one of the Board's independent directors, as Chairman of the Board. The appointment of Mr. Alley reflects the Board's view that, at present, Qualstar would best be served by a Board leadership structure that separates the roles of Chairman of the Board and Chief Executive Officer and has an independent director serve as Chairman of the Board. In that same press release, Qualstar also announced that Gerald J. Laber had been appointed as Chairman of the Board's Audit Committee.

On May 24, 2013, Qualstar filed the preliminary form of this Proxy Statement with the SEC.

At various times between termination of the Offer and the present, Qualstar has made numerous attempts to engage in discussions with the BKF Capital Group regarding a potential settlement of the potential proxy contest. In its most recent such attempt, Qualstar was informed that BKF Capital Group is not currently interested in discussing a settlement and prefers instead to pursue its proxy contest.

THE BOARD OF DIRECTORS STRONGLY URGES YOU NOT TO SIGN OR RETURN ANY PROXY CARD OR VOTING INSTRUCTION CARD THAT YOU MAY RECEIVE FROM THE BKF CAPITAL GROUP, EVEN AS A PROTEST VOTE AGAINST THE BKF CAPITAL GROUP OR THE BKF CAPITAL GROUP'S NOMINEES.

## ELECTION OF DIRECTORS

### (Proposal 1)

In accordance with Qualstar's bylaws, the number of directors constituting the Board is fixed as of the commencement of voting at the 2013 Annual Meeting at five. All five directors are to be elected at the 2013 Annual Meeting and will hold office until the next Annual Meeting of Shareholders and until their respective successors are elected and have qualified.

The following five individuals - Allen H. Alley, Chester Baffa, Lawrence D. Firestone, Gerald J. Laber and Daniel C. Molhoek - have been unanimously designated by the Board as the nominees for election as directors. Messrs. Alley, Firestone, Laber and Molhoek currently serve as directors of Qualstar. Each of these nominees was recommended to the Board by the Nominating and Governance Committee and was approved unanimously by the Board. The recommendations of the Board is based on its carefully considered judgment that the experience, record and qualifications of each of its nominees make them the best candidates to serve on the Board. We believe that these five nominees, with their breadth of relevant and diverse experience, represent the best interests of our shareholders and that the five nominees recommended by the Board should be elected.

The nominees of the Board have consented to serving as nominees for election to the Board, to being named in this Proxy Statement and to serving as members of the Board if elected by Qualstar's shareholders. As of the date of this Proxy Statement, Qualstar has no reason to believe that any nominee will be unable or unwilling to serve if elected as a director. However, if any of them becomes unable or is unwilling to serve at the time the election occurs, the shares represented by proxies will be voted for the election of a substitute nominee, if any, as designated by the Board upon the recommendation of the Nominating and Governance Committee of the Board, or the number of directors may be reduced accordingly.

The accompanying WHITE proxy card will not be voted for more than five candidates or for anyone other than the Board's nominees or designated substitutes. Unless otherwise instructed, the persons named in the accompanying proxy will vote to elect Allen H. Alley, Chester Baffa, Lawrence D. Firestone, Gerald J. Laber and Daniel C. Molhoek to the Board, unless, by marking the appropriate space on the WHITE proxy card, the shareholder instructs that he, she or it withholds authority from the proxy holder to vote.

As earlier noted, the BKF Capital Group, which owns approximately 18.7% of Qualstar's common stock, has notified us of their intention to nominate its own slate of director candidates for election at the 2013 Annual Meeting to serve as directors of Qualstar in opposition to the candidates designated by the Board. While Qualstar does not know whether the BKF Capital Group will in fact solicit proxies or nominate persons for election as directors at the 2013 Annual Meeting, you may receive an opposing proxy statement and proxy card and letters or other proxy solicitation materials from the BKF Capital Group. Please be aware that Qualstar is not responsible for the accuracy of any information provided by or relating to the BKF Capital Group contained in any proxy solicitation materials filed or disseminated by, or on behalf of, the BKF Capital Group or any other statements that the BKF Capital Group may otherwise make.

We urge you to disregard any proxy card or voting instruction card that you may receive from the BKF Capital Group and to sign and return only the WHITE proxy card that you receive from Qualstar. Even a "WITHHOLD" vote with respect to the BKF Capital Group's nominees on their proxy card will cancel any proxy previously given to Qualstar. If you previously signed a proxy card sent to you by the BKF Capital Group, you can revoke that proxy and vote for the Board of Directors' nominees as described above. Only your latest dated proxy will count.



The following table provides information regarding Qualstar's nominees, their ages, the year in which each first became a director of Qualstar, their principal occupations or employment during the past five years, directorships held with other public companies at any time during the past five years, and other biographical data. Included in the biography of each nominee is a description of the particular experience, qualifications, attributes or skills that led the Board to conclude that the nominee should serve as a director of Qualstar.

| Name and Age        | Business Experience During Last Five Years and Other Directorships   |
|---------------------|--|
| Allen H. Alley (58) | <p>Allen H. Alley has been a director since January 2013, and was appointed Chairman of the Board in May 2013. Mr. Alley currently serves on the Board of Directors of several privately held companies and non-profit organizations, including Purdue University Foundation, Purdue Industrial Advisory Council and the Technology Association of Oregon. From 1997-2010, Mr. Alley served as the Chairman of the Board of Pixelworks, Inc., a semiconductor company, and as President, CEO and Chairman Founder from 1997-2006. From 1992-1996, Mr. Alley was Vice-President, Marketing and Engineering of InFocus Systems, Inc., a manufacturer of portable projection systems. From 1986-1992, Mr. Alley was a General Partner at Battery Ventures, a venture capital firm. From 1976-1986, Mr. Alley held various engineering positions as Director, Computer Aided Engineering at Computervision Corp, Lead Engineer at Boeing and Design Engineer at Ford Motor Company. Mr. Alley has previously served as a director of several publicly owned companies, including Pixelworks, Inc., Applied Films, InFocus Systems, Inc., and Stratasys (pre-IPO).</p> <p>Mr. Alley was also Chairman of the Oregon GOP from 2010-2012, a candidate for Governor of Oregon in 2009-2010, a candidate for Treasurer of Oregon in 2008, and served as Deputy Chief of Staff to the Governor of Oregon from 2007-2008. Mr. Alley also served as Chairman, Oregon Council for Knowledge and Economic Development from 2002-2006. He also served as a Presidential Appointment to the US-Japan Private Sector Government Commission in 2002.</p> <p>Mr. Alley has received many awards, both in a personal and professional capacity, among which are Purdue Distinguished Engineering Alumni in 2007, Purdue University Old Master in 2006, Forbes 4th Fastest Growing Tech Company in 2005, Oregon Technology Company of the Year in 2004, the Deloitte Technology Fast 500 in 2001 through 2003, Oregon Technology Executive of the Year in 2002, Purdue Outstanding Mechanical Engineer in 2002, Ernst &amp; Young Entrepreneur of the Year in 2001, Fastest Growing Public Company in Oregon in 2001 and Oregon Technology Company of the Year in 2000. Mr. Alley received a BS degree in Mechanical Engineering from Purdue University in 1976, with a minor emphasis in Business.</p> |
| Chester Baffa (73)  | <p>Chester Baffa is a 40+ year veteran of the data storage and computing industries. Before his retirement, Mr. Baffa was Vice President of Sales for Overland Storage, Inc. from 2000 to 2005, and prior to that Vice President and General Manager with ATL Products (now Quantum Corporation) from 1995 to 1999. Previously Mr. Baffa held senior leadership and business development positions with Micropolis Corporation, Okidata Corporation, and Control Data Corporation. In the course of his extensive career, Mr. Baffa was instrumental in building sales, marketing and operating strategies for rapid growth and profitability of companies engaged in the design and sales of secondary computer storage systems including both tape libraries and disk systems designed for data protection. Mr. Baffa received a degree in Economics from Allegheny College.</p>   |

Lawrence D. Firestone (55) Lawrence D. Firestone has served as Qualstar's President and CEO since June 1, 2012 and as a Board member since May 2011. From February 2011 to May 2012, Mr. Firestone was the Chief Financial Officer of Xiotech Corporation, a supplier of performance driven enterprise storage. From August 2006 to August 2010, Mr. Firestone was Executive Vice President and Chief Financial Officer of Advanced Energy Industries, Inc. (AEIS) a leading provider of power conversion devices for the semi-conductor and solar inverter markets. From July 1999 until August 2006, Mr. Firestone served as the Senior Vice President and Chief Financial Officer and secretary and treasurer at Applied Films Corporation, (AFCO) a leading supplier of thin film deposition equipment. Prior to joining Applied Films, Mr. Firestone served as Vice President and Chief Operating Officer of Avalanche Industries, a contract manufacturer of custom cables and harnesses, from 1996 to 1999. Mr. Firestone served as a director of Amtech Systems, Inc. from 2005 to 2007 and as a director of Hyperspace Communications, Inc. from 2004 to 2005. Mr. Firestone received a BSBA degree in Accounting from Slippery Rock State College in 1981.

Gerald J. Laber (69)

Gerald J. “Bud” Laber has served as a director of Qualstar since May 2013. Mr. Laber has been a private investor since 2000, when he retired after 33 years of service with Arthur Andersen. Mr. Laber was an audit partner with Arthur Andersen from 1980 to 2000 and, with the exception of a leave for military service from 1966 through 1968, was employed by Arthur Andersen from 1965 until retiring in 2000.

Mr. Laber is a certified public accountant and is a member of the American Institute of Certified Public Accountants and the Colorado Society of Certified Public Accountants. Currently, Mr. Laber is: (i) on the board of directors, governance and nominating committee, and chair of both the compensation and audit committees of Boulder Brands, Inc. since June 2005; (ii) on the board of directors and chair of the audit committee of Scott’s Liquid Gold since February 2004; and (iii) on the board of directors and chair of the audit committee and member of the compensation committee of Allied Motion Technologies, Inc. since November 2010.

Formerly, Mr. Laber served on the board of directors of Qualmark Corporation (no longer a public reporting company) until May 2013; on the board of directors and as chair of the audit committee of Spectralink Corporation from April 2004 until it was acquired in March 2007; and served on the board of directors and audit committee of Applied Films Corporation from July 2004 until it was acquired in July 2007 and served as audit committee chair from October 2005 to July 2007.

Mr. Laber holds a B.S.B.A. degree with a major in accountancy from the University of South Dakota. He is a member of the board of trustees of the University of South Dakota Foundation and was president of The Catholic Foundation of Northern Colorado from January 2008 to November 2012.

Daniel C. Molhoek (71)

Daniel C. Molhoek was appointed as a director of Qualstar in September 2012. Mr. Molhoek is currently Counsel at Varnum LLP, a Michigan law firm where he had been a partner since 1973. He has advised boards of publicly held companies and currently serves as Secretary to the Board of Herman Miller, Inc. He also serves on the Board of Directors of several private companies and many non-profit organizations, including Habitat for Humanity of Kent Count and the John Ball Zoological Society. He received a B.S. degree in engineering from the University of Michigan in 1963 and a J.D. from the University of Michigan (magna cum laude) in 1967.

Our Board of Directors unanimously recommends a vote FOR the election of each of the Board’s nominees (Allen H. Alley, Chester Baffa, Lawrence D. Firestone, Gerald J. Laber, and Daniel C. Molhoek) in accordance with the instructions on the enclosed WHITE proxy card or, if you do not receive a proxy card, the voting instruction form provided by your bank or broker.

Even if you sign a proxy card sent to you by the BKF Capital Group, you have the right to change your vote by using the enclosed WHITE proxy card. Only the latest dated proxy card you vote will be counted.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR ALL FIVE OF THE BOARD'S DIRECTOR NOMINEES.

THE BOARD STRONGLY URGES YOU NOT TO SIGN OR RETURN ANY PROXY CARD OR VOTING INSTRUCTION CARD THAT YOU MAY RECEIVE FROM THE BKF CAPITAL GROUP, EVEN AS A PROTEST VOTE AGAINST THE BKF CAPITAL GROUP OR THE BKF CAPITAL GROUP'S NOMINEES.

## CORPORATE GOVERNANCE

### Director Independence

Our Board has determined that all of our directors and director nominees satisfy the current “independent director” standards established by rules of The Nasdaq Stock Market, Inc. (“Nasdaq”), except for Lawrence D. Firestone, who is Chief Executive Officer and President of Qualstar. Each director serving on the Audit Committee and the Compensation Committee of our Board also meets the more stringent independence requirements established by SEC and Nasdaq rules applicable to audit and compensation committees. Our Board has determined that no director or nominee has a relationship that would interfere with the exercise of independent judgment in carrying out his responsibilities as a director. There are no family relationships among any of the directors and nominees or executive officers of Qualstar.

### Board of Directors and Committee Meetings

During the fiscal year ended June 30, 2012, our Board of Directors met 12 times and the committees of our Board held a total of 9 meetings. Each incumbent director attended at least 75% of the aggregate of all meetings of the Board of Directors and the committees of the Board, if any, on which he served during fiscal 2012.

The independent directors meet in executive session on a regular basis without any management directors or employees present.

In accordance with our Corporate Governance Guidelines, which our Board adopted on April 26, 2013, directors are expected to attend annual meetings of shareholders. All directors who were elected at the 2012 Annual Meeting of shareholders attended that meeting. A copy of our Corporate Governance Guidelines is available in the investors section of the Company’s website at [www.Qualstar.com](http://www.Qualstar.com).

### Committees of the Board

Our Board has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Governance Committee.

The Audit Committee is comprised solely of non-employee directors who satisfy current Nasdaq standards with respect to independence, financial expertise and experience. During fiscal 2012 up to May 8, 2012, the Audit Committee was comprised of Messrs. Corker, Firestone, Gromada and Meyer, with Mr. Gromada serving as Chairman. Mr. Firestone resigned from the committee on May 8, 2012 in connection with his appointment as Chief Executive Officer and President. On February 11, 2013, Mr. Alley was appointed to the committee. On May 16, 2013, Mr. Laber was appointed to the committee and to serve as Chairman in place of Mr. Gromada. Our Board of Directors has determined that each of Messrs. Alley, Gromada, Laber and Meyer meet the SEC’s definition of “audit committee financial expert.” The Audit Committee has a written charter that specifies its responsibilities, which include oversight of the financial reporting process and system of internal accounting controls of Qualstar, and appointment and oversight of the independent public accountants engaged to audit Qualstar’s financial statements. A copy of our Audit Committee Charter is available in the investors section of Qualstar’s website at [www.Qualstar.com](http://www.Qualstar.com).

The Audit Committee held 6 meetings during fiscal 2012. To ensure independence, the Audit Committee also meets separately with our independent public accountants apart from meeting with members of management.

The Compensation Committee is comprised solely of directors who meet the current Nasdaq requirements for independence. During the fiscal year ended June 30, 2012 the members of this committee were Stanley W. Corker,

Carl W. Gromada and Robert A. Meyer. On November 1, 2012, Daniel C. Molhoek replaced Mr. Gromada as a member of the committee. The Compensation Committee reviews and recommends the salaries and bonuses of our executive officers, establishes compensation and incentive plans for our executive officers, and determines other fringe benefits. The Compensation Committee also evaluates the Company's compensation plans and practices in order to determine that they do not create excessive or unnecessary risks for the Company. The Compensation Committee held two meetings during fiscal 2012.

The Compensation Committee meets with Qualstar's Chief Executive Officer and other senior executives in order to obtain recommendations with respect to Qualstar's compensation programs and practices for executives and other employees. Management discusses with the Compensation Committee the practices that have been put in place to identify and mitigate, as necessary, potential risks. The Compensation Committee takes management's recommendations into consideration, but is not bound by management's recommendations with respect to executive compensation. The Compensation Committee annually reviews and recommends for approval to the full Board all elements of compensation of Qualstar's Chief Executive Officer, and reviews, counsels, and make recommendations regarding the compensation elements of other senior executives. The Compensation Committee also approves equity awards to all employees and directors of Qualstar. A copy of our Compensation Committee Charter is available in the investors section of the Company's website at [www.Qualstar.com](http://www.Qualstar.com).

The Nominating Committee is comprised solely of independent directors and during fiscal 2012 was comprised of Messrs. Corker, Gromada, Meyer and Rich, with Mr. Meyer serving as Chairman. The Nominating Committee held one meeting during fiscal 2012. In September 2012, Mr. Rich resigned from the Board and the committee. In November 2012, Mr. Molhoek was appointed to the committee and to serve as Chairman in place of Mr. Meyer, and the committee was renamed the Nominating and Governance Committee. The role of the Nominating and Governance Committee, as set forth in its charter, is to develop and recommend to the Board corporate governance guidelines applicable to Qualstar, assist the Board by identifying, evaluating and recommending candidates for election to the Board, and recommend Board members to serve on each committee of the Board. A copy of our Nominating and Governance Committee Charter is available in the investors section of Qualstar's website at [www.Qualstar.com](http://www.Qualstar.com).

The guidelines and procedures for identifying and evaluating nominees for election to the Board are set forth in the charter of the Nominating and Governance Committee. In general, persons considered for nomination to the Board must have demonstrated outstanding achievement, integrity and judgment and such other skills and experience as will enhance the Board's ability to serve the long-term interests of Qualstar and our shareholders, and must be willing and able to devote the necessary time for Board service. To comply with regulatory requirements, a majority of Board members must qualify as independent directors under Nasdaq rules, and at least one Board member must qualify as an "audit committee financial expert" under rules promulgated by the SEC. In order to qualify for nomination or renomination for election to the Board, a candidate must also comply with all applicable provisions of Qualstar's bylaws as amended and restated.

The Nominating and Governance Committee considers potential candidates recommended by current directors, company officers, employees and others, and will consider candidates recommended by shareholders for consideration as director nominees. Our charter makes no distinction between whether a director nominee is recommended by a shareholder or by management. Although we have not received any recommendations for director nominees from shareholders (other than from the BKF Capital Group stating its intention to nominate its own slate of directors to replace the entire current membership of the Board at the 2013 Annual Meeting, as discussed above), we expect that the Committee would apply the same process and criteria in evaluating a shareholder recommendation as it would for a management recommendation. A shareholder wishing to recommend a candidate for nomination to the Board should send a letter to our Secretary at 3990-B Heritage Oak Court, Simi Valley, California 93063. The mailing envelope must contain a clear notation that the enclosed letter is a "Director Nominee Recommendation." The letter must identify the author as a shareholder and provide a brief summary of the candidate's qualifications. At a minimum, candidates recommended for election to the Board must meet the independence standards established by Nasdaq and the criteria set forth above.

Daniel C. Molhoek, Chair of the Nominating and Governance Committee, recommended that the Nominating and Governance Committee consider Chester Baffa as a nominee for election to the Board at the 2013 Annual Meeting. Allen H. Alley, Gerald J. Laber and Daniel C. Molhoek, each of whom was appointed as a director by the Board during the past year and will stand for election by the shareholders at the 2013 Annual Meeting, as well as Lawrence D. Firestone, were also each recommended for nomination by one or more members of the Nominating and Governance Committee.

#### Board Leadership Structure and the Role of the Board in the Oversight of Risk Management

During fiscal 2012 Qualstar did not have a Chairman of the Board. Until his retirement on June 15, 2012, our former Chief Executive Officer and President, William J. Gervais, effectively functioned in the capacity of chairman at meetings of the Board. Following the retirement of Mr. Gervais and his resignation from the Board, this responsibility was assumed by Mr. Gervais' successor as Chief Executive Officer and President, Lawrence D. Firestone. In May 2013, the Board unanimously elected Allen Alley, an independent director by the Board's determination, as Chairman



of the Board.

Our Board is involved in overseeing the management of risks that face our company. Historically, potential risks have been considered by the full board as they became apparent, such as in connection with potential acquisitions, as new business opportunities are evaluated, or with day-to-day operational issues. Our Audit Committee focuses on risks related to financial information systems and financial reporting, regularly reports to the full Board regarding its activities and any specific risks that merit attention by the full Board. Our Compensation Committee has oversight responsibility regarding risks related to the Company's compensation policies and practices.

#### Shareholder Communications with the Board

Shareholders wishing to communicate with the Board of Directors or with an individual Board member concerning Qualstar may do so by writing to the Board or to the particular Board member, and mailing the correspondence to: Attention: Corporate Secretary, Qualstar Corporation, 3990-B Heritage Oak Court, Simi Valley, California 93063. The envelope should indicate that it contains a shareholder communication.

All correspondence received is opened and screened for security purposes and is then entered into a log for tracking purposes. Qualstar's Corporate Secretary reviews such correspondence and provides the Board at each of its meetings with a summary of all such correspondence and a copy of any correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the Board or the standing committees of the Board or that otherwise requires their attention. The Corporate Secretary will not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic. Correspondence relating to accounting, internal controls or auditing matters will be handled in accordance with procedures established by the Audit Committee with respect to such matters.

#### Code of Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics that applies to our chief executive officer, chief financial officer, controller and persons performing similar functions. A copy of the Code of Business Conduct and Ethics is available in the investors section of Qualstar's website at [www.Qualstar.com](http://www.Qualstar.com), and a copy also may be obtained at no charge by written request to the attention of the Corporate Secretary at 3990-B Heritage Oak Court, Simi Valley, California 93063.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Qualstar's directors and executive officers, and persons who own more than ten percent of Qualstar's common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish Qualstar with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of Section 16(a) reports furnished to us and written representations that no other reports were required during the fiscal year ended June 30, 2012, our officers, directors and greater than ten percent beneficial owners complied with all Section 16(a) filing requirements except for the following: Mr. Lawrence D. Firestone filed a Statement of Changes in Beneficial Ownership on Form 4 on June 6, 2012, one day after it was due.

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information with respect to the beneficial ownership of our common stock as of May 20, 2013 for:

- each person (or group of affiliated persons) who we know beneficially owns more than 5% of our common stock;
- each of our directors and nominees for election to the Board;
- each of the named executive officers; and
- all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to shares. Except as indicated by footnote, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned, subject to community property laws where applicable. The percentage of shares beneficially owned is based on 12,253,117 shares of common stock outstanding as of May 20, 2013. Shares of common stock subject to options currently exercisable or exercisable within 60 days of May 20, 2013, are deemed outstanding for computing the percentage ownership of the person holding such options,

but are not deemed outstanding for computing the percentage ownership of any other person. The address for those individuals for which an address is not otherwise indicated is: c/o Qualstar Corporation, 3990-B Heritage Oak Court, Simi Valley, California 93063.

| Name   | Common<br>Shares Owned | Options<br>Exercisable<br>Within<br>60 Days (1) | Beneficial Ownership<br>Number | Beneficial Ownership<br>Percent |
|--|------------------------|---|--------------------------------|---------------------------------|
| William J. Gervais (2)<br>1925 Angus Avenue, Unit B<br>Simi Valley, CA 93063                                 | 2,523,864              | —   | 2,523,864                      | 20.6%                           |
| BKF Capital Group, Inc.<br>Steven N. Bronson (3)<br>225 N.E. Mizner Blvd., Suite 400<br>Boca Raton, FL 33432 | 2,292,220              | —   | 2,292,220                      | 18.7%                           |
| Dimensional Fund Advisors LP (4)<br>6300 Bee Cave Road<br>Austin, TX 78746                                   | 931,589                | —   | 931,589                        | 7.6%                            |
| Amici Capital, LLC (5)<br>665 Fifth Avenue, 34th Floor<br>New York, NY 10103                                 | 834,901                | —   | 834,901                        | 6.8%                            |
| Lloyd Miller, III (6)<br>222 Lakeview Avenue, Suite 160-365<br>West Palm Beach, FL 33401                     | 810,058                | —   | 810,058                        | 6.6%                            |
| Allen Alley  | —                      | —   | —                              | —                               |
| Stanley W. Corker  | 31,640                 | 24,000  | 55,640                         | *                               |
| Lawrence D. Firestone  | 2,000                  | 87,000  | 89,000                         | *                               |
| Carl Gromada   | 13,000                 | 24,000  | 37,000                         | *                               |
| Gerald. J. Laber   | —                      | —   | —                              | —                               |
| Robert A. Meyer  | —                      | 24,000  | 24,000                         | *                               |
| Daniel C. Molhoek  | 3,000                  | —   | 3,000                          | —                               |
| Robert K. Covey  | 48,280                 | 5,000   | 53,280                         | *                               |
| Randy D. Johnson   | —                      | 17,000  | 17,000                         | *                               |
| William J. Lurie   | 10,100                 | 5,000   | 15,100                         | *                               |
| Philip G. Varley   | —                      | —   | —                              | —                               |
| Steven W. Wagner   | 5,250                  | —   | 5,250                          | *                               |
| All directors and officers as a group (12<br>persons)  | 113,270                | 186,000   | 299,270                        | 2.4%                            |
| Chester Baffa (7)  | —                      | —   | —                              | —                               |

\*Less than 1.0%

(1) Represents shares that may be acquired upon exercise of stock options which are either currently vested or will vest within 60 days of May 20, 2013.

(2) William J. Gervais is the founder and former Chief Executive Officer and President of Qualstar. Mr. Gervais ended his employment as Chief Executive and President and service as a director on June 15, 2012.

(3)

Based on information contained in reports filed with the SEC, BKF Capital Group, Inc. beneficially owns 2,234,520 shares of Qualstar common stock as of January 17, 2013. Steven N. Bronson, as the Chairman and President of BKF Capital Group, Inc., may be deemed to beneficially own the shares of Qualstar held by BKF Capital Group, Inc. Mr. Bronson, as the sole owner of BA Value Investors, LLC, is the beneficial owner of 57,700 shares of Qualstar.

- (4) Based on information contained in reports filed with the SEC, Dimensional Fund Advisors LP, an investment adviser, beneficially owns 931,589 shares as of December 31, 2012.
- (5) Based on information contained in reports filed with the SEC, Amici Capital, LLC, an investment adviser and formerly known as Porter Orlin LLC, beneficially owns 834,901 shares as of December 31, 2012.
- (6) Based on information contained in reports filed with the SEC, Lloyd Miller, III beneficially owns 810,058 shares as of December 11, 2012.
- (7) Non-incumbent nominee for election to the Board.

## COMPENSATION DISCUSSION AND ANALYSIS

This section contains a discussion of the material elements of compensation awarded to, earned by, or paid to our principal executive officer, our principal financial officer, and our other executive officers who were serving as executive officers of Qualstar at June 30, 2012. These individuals are identified in the Summary Compensation Table and other compensation tables that follow this section, and are referred to throughout this report as our “named executive officers.”

### Executive Summary and Overview of Fiscal 2012 Compensation

Our Company’s long-term success depends on our ability to fulfill the expectations of our customers in a competitive environment and deliver value to shareholders. To achieve these goals, it is critical that we are able to attract, motivate, and retain highly talented individuals at all levels of the organization that are committed to Qualstar’s values and objectives.

Qualstar strives to provide compensation that is (a) linked to shareholder value creation, (b) reflective of the overall performance of Qualstar and each individual executive, and (c) considerate of the competitive market levels of compensation needed to recruit, retain and motivate top executive talent, while remaining consistent with the other objectives.

### Compensation Philosophy and Objectives

Qualstar’s executive compensation program is based on the same objectives that guide Qualstar in establishing all of its compensation programs:

- Compensation fosters the long-term focus required for Qualstar’s success. In general, the compensation of Company executives includes longer-term incentives because they are in a greater position to influence longer-term results.
- Compensation reflects the level of job responsibility, individual performance, and Company performance. As employees progress to higher levels in the organization, an increasing proportion of their pay should be linked to Company performance and shareholder returns because those employees are more able to affect Qualstar’s results.
- Compensation reflects the value of the job in the marketplace. To attract and retain a highly skilled work force, we must remain competitive with the pay of other premier employers who compete with us for talent.
- While compensation programs and individual pay levels will always reflect differences in job responsibilities, geographies and marketplace considerations, the overall structure of the compensation and benefit programs should be broadly similar and equitable across the organization.

### Overview of Executive Compensation Program

#### The Compensation Committee

The Compensation Committee has responsibility for establishing, implementing and monitoring adherence to Qualstar’s compensation philosophy. Accordingly, the Compensation Committee strives to develop and maintain competitive, progressive programs that attract, retain and motivate high-caliber employees, foster teamwork, and maximize the long-term success of Qualstar by appropriately rewarding our employees for their achievements.

The Compensation Committee also evaluates risks and rewards associated with Qualstar's overall compensation philosophy and structure. To the extent our compensation programs provide for incentive-based compensation, the Compensation Committee evaluates whether these programs are designed to pay for performance, and thus encourage only appropriate risk-taking. These programs are also subject to funding caps and oversight of the Compensation Committee and various functional departments of Qualstar to ensure that our employees, including our executive officers, are not encouraged to take excessive or unnecessary risks in managing our business.

#### Role of Executive Officers in Compensation Decisions

The Compensation Committee meets with Qualstar's Chief Executive Officer in order to obtain recommendations with respect to Qualstar's compensation programs and practices for executives and other employees. Management discusses with the Compensation Committee the practices that have been put in place to identify and mitigate, as necessary, potential risks. The Chief Executive Officer annually reviews the performance of each executive officer, other than himself. The Chief Executive Officer's performance is reviewed annually by the Compensation Committee.



With support from market compensation data, performance reviews and other information, management makes recommendations to the Compensation Committee on the base salaries, bonus targets and equity compensation for the executive officers and other employees. The Compensation Committee takes management's recommendations into consideration, but is not bound by management's recommendations with respect to executive compensation.

While management attends certain meetings of the Compensation Committee, the Compensation Committee also holds executive sessions not attended by any members of management or by non-independent directors. The Compensation Committee annually reviews and recommends for approval to the full Board all elements of compensation of Qualstar's Chief Executive Officer, and reviews, counsels, and makes recommendations regarding the compensation elements of other senior executives. The Compensation Committee also approves equity awards to all employees and directors of Qualstar.

#### Benchmarking Against Peer Companies

In connection with Qualstar's recruitment of a successor to William J. Gervais as Chief Executive Officer and President of Qualstar during fiscal 2012, the Compensation Committee evaluated and determined the compensation elements applicable to the successor Chief Executive Officer consistent with the Compensation Philosophy and Objectives described above. One factor that the Compensation Committee considered in these evaluations was the compensation paid to chief executive officers of a peer group of companies. The peer companies used for the comparative review were chosen to represent direct competitors of Qualstar and companies with which Qualstar competes for executive talent. The peer group consisted of:

|                                    |                              |                                   |
|------------------------------------|------------------------------|-----------------------------------|
| Advanced Digital Information Corp. | Focus Enhancements Inc.      | Quantum Corporation               |
| Autobytel Inc.                     | Interlink Technologies, Inc. | QuickLogic Corporation            |
| CalAmp Corporation                 | Ixia                         | SpaceDev Corporation              |
| Comarco Inc.                       | Lantronix, Inc.              | Superconductor Technologies, Inc. |
| DDi Corporation                    | LaserCard Corporation        | Universal Electronics Inc.        |
| Dot Hill Corporation               | Overland Storage, Inc.       | Zhone Technologies, Inc.          |
| eMagin Corporation                 |                              |                                   |

The Compensation Committee considered the peer group comparative data along with factors such as the scope of executive duties, the need to recruit qualified candidates, and Qualstar's financial outlook. After considering these factors and making appropriate size adjustments with respect to peer companies, the Compensation Committee determined to set compensation element levels for the successor Chief Executive Officer at between the 30th and 50th percentiles among the peer group.

#### Executive Officer Compensation Elements

For fiscal year 2012, the principal components of compensation for named executive officers were: (1) Base Salary, (2) Performance-Based Incentive Compensation, (3) Long-Term Equity Incentive Compensation, (4) Personal Benefits, and (5) Other Compensation. In determining the amount and relative allocation among each component of compensation for each named executive officer, the Compensation Committee considered, among other factors, Qualstar's and each executive officer's experience level and historical performance, compensation paid by companies comparable in size to Qualstar, data obtained from management's recruitment activities, historical rates of executive compensation, Company revenues and profitability, and alignment with Qualstar's overall compensation philosophy.

## Base Salary

Base salaries are set at levels that the Compensation Committee deems to be sufficient to attract and retain highly talented executive officers capable of fulfilling Qualstar's key objectives. Base salaries are also set with the goal of rewarding executive officers on a day-to-day basis for their time and services while encouraging them to strive for performance-based and long-term incentives.

The table below shows the base salary established by the Compensation Committee for each of our named executive officers for fiscal years 2012 and 2013, and the percentage change compared to the prior fiscal year. Salary adjustments typically do not coincide with the beginning of the fiscal year, so the amounts shown below may differ from those shown in the Fiscal 2012 Summary Compensation Table.

| Name and Principal Position   | Fiscal 2012<br>Base Salary | Percent<br>Change<br>versus Fiscal<br>2011<br>Base Salary | Fiscal 2013<br>Base Salary | Percent<br>Change<br>versus Fiscal<br>2012<br>Base Salary |
|---|----------------------------|---|----------------------------|---|
| Lawrence D. Firestone<br>Chief Executive Officer and President        | \$ 300,000                 | (1)   | \$ 300,000                 |   |
| William J. Gervais<br>Former Chief Executive Officer and<br>President | \$ 177,507                 | (2)   | \$                         |   |
| Nidhi H. Andalon<br>Chief Financial Officer and Vice President        | \$ 160,000                 | (3) 6   | % \$ 160,000               |   |
| Randy D. Johnson<br>Vice President Sales, N2Power                     | \$ 180,000                 |   | \$ 200,000                 | (5) 10 %  |
| Robert K. Covey<br>Vice President of Marketing                        | \$ 170,600                 | (4) 3   | % \$ 170,600               |   |

(1) Mr. Firestone was appointed our Chief Executive Officer and President on May 7, 2012, effective as of his commencement date of June 1, 2012. Mr. Firestone's base salary is specified in an employment agreement between Qualstar and Mr. Firestone as described below under the caption entitled "Other Compensation."

(2) Mr. Gervais ended his employment as Chief Executive and President on June 15, 2012.

(3) Upon recommendation of the Board of Directors, Ms. Andalon's annual base salary increased to \$160,000 effective November 2, 2011. Ms. Andalon resigned effective March 15, 2013.

(4) As a cost-savings measure, Mr. Covey's base salary was reduced by 10%, from \$184,000 to \$165,600, in July 2009. Mr. Covey's base salary was partially reinstated, by \$5,000, in July 2011.

(5) Upon recommendation of the Board of Directors, Mr. Johnson's annual base salary increased to \$200,000 effective August 7, 2012, retroactive to July 1, 2012.

#### Performance-Based Incentive Compensation

In connection with his appointment as our Chief Executive Officer and President on May 7, 2012, effective as of his commencement date of June 1, 2012, the Compensation Committee determined that Mr. Firestone would be eligible for an incentive bonus during fiscal year 2013 based on the achievement of certain goals and objectives established by the Board of Directors. Goals and objectives initially established for Mr. Firestone relate to revitalization of Qualstar's operations and achievement of financial performance targets, with a potential target incentive bonus of 100% of his base salary. At the time Mr. Firestone's objectives were set, the Compensation Committee believed that these objectives would be difficult to meet, with some of the obstacles being at least in part beyond Mr. Firestone's control, but potentially achievable. The incentive bonus for the initial term ending June 30, 2013 will be reduced by (1) the amount of his signing bonus of \$75,000; (2) the amount of his reimbursed commuting expenses from his current residence in Colorado to Simi Valley, California of up to \$60,000; and (3) the amount of his reimbursed relocation expenses of up to \$20,000. Mr. Firestone's incentive bonus eligibility is specified in an employment agreement between Qualstar and Mr. Firestone as described below under the caption entitled "Other Compensation."

Mr. Johnson was first appointed an executive officer by our Board on March 25, 2010. During fiscal 2012, his incentive compensation plan provided that he could earn a cash bonus based on the level of pre-tax profits achieved by our N2Power business unit for the fiscal year. Mr. Johnson's potential bonus ranged from 0% of his base pay if N2Power is unprofitable, up to a maximum amount equal to 15% of his base pay if N2Power achieves pre-tax profits equal to more than 19% of N2Power sales. For the fiscal year ended June 30, 2012, Mr. Johnson earned a bonus of

\$10,800, which is equal to 6% of his base pay. For fiscal year 2013, Mr. Johnson's incentive compensation plan was modified to provide up to a maximum bonus of 50% of base pay based upon achievement of specific performance objectives.

Historically, the Compensation Committee has considered and in some cases established incentive bonus plans for other executive officers. Because Qualstar has not in recent years in the Committee's judgment achieved sufficient levels of revenues or pre-tax profits, the Committee did not establish a bonus plan for executive officers for fiscal 2012 other than those applicable to Mr. Firestone and Mr. Johnson.

Our Board of Directors reserves the right to pay discretionary cash bonuses, if deemed appropriate.

#### Long-Term Equity Incentive Compensation

Our 2008 Stock Incentive Plan authorizes Qualstar to grant stock options to purchase, in the aggregate, up to 500,000 shares of our common stock. This plan was adopted by our Board of Directors in November 2008 and approved by our shareholders in March 2009. Under the plan, the exercise price of stock options must be no less than the closing price of our common stock on the date of grant. It is our policy to grant stock options only at duly held meetings of our Board of Directors, with an exercise price equal to the closing price of our common stock on the date of the Board meeting.

Stock options are granted to executive officers as long-term incentives in order to align executives' performance with the interests of Qualstar's shareholders and also encourage retention. In 2012, the Compensation Committee determined an equity incentive compensation target for each executive officer after consideration of individual performance and accomplishments, future Company performance, performance goals, and other elements of the executives' compensation. Stock options awarded to executive officers during fiscal year 2012 are set forth in the table below entitled "Grants of Plan-Based Awards in Fiscal Year 2012."

Under the terms of an employment agreement between Qualstar and Mr. Firestone described below under "Other Compensation," and as further set forth in the table below, Mr. Firestone was granted an award of 100,000 options under the 2008 Stock Incentive Plan on June 1, 2012 when he became our CEO and President, and a second award of 100,000 options on January 2, 2013. The employment agreement provides that a third grant of 100,000 options will be awarded as soon as practicable after January 1, 2014 or promptly after shareholder approval of an amendment to the 2008 Plan permitting option grants in excess of 100,000 per calendar year.

#### Personal Benefits

As employees, the executives were eligible to participate in health and welfare benefits, as offered to our general workforce, designed to attract and retain a skilled workforce in a competitive marketplace. These benefits help ensure that Qualstar has a healthy and focused workforce through reliable and competitive health and other personal benefits. These benefits were considered in relation to the total compensation package, but did not materially impact decisions regarding other elements of executive officer compensation.

#### Other Compensation

Qualstar is party to an employment agreement with Mr. Firestone that provides that Mr. Firestone will be employed by Qualstar for an initial term beginning on June 1, 2012 (the "Start Date") through June 30, 2013, which term shall be automatically renewed for one year unless Qualstar provided written notice of non-renewal by March 31, 2013 (which notice was not provided). Mr. Firestone's employment then becomes "at will" after June 30, 2014. Mr. Firestone's employment agreement specifies his base salary at the rate of \$300,000 per year during the initial term, which shall be increased to \$350,000 per year beginning July 1, 2013 (unless Qualstar had provided written notice of non-renewal of Mr. Firestone's employment agreement by March 31, 2013), as well as a potential target incentive bonus of 100% of his base salary as described above under the caption entitled "Performance-Based Incentive Compensation." In accordance with further terms of Mr. Firestone's employment agreement, Qualstar paid to him during June 2012 a signing bonus of \$75,000 and reimbursed \$4,500 in commuting and temporary housing expenses.

Mr. Firestone's employment agreement further provides that if he is terminated by Qualstar without cause or if he resigns for good reason prior to June 30, 2014, he will receive his accrued compensation and, subject to certain conditions, a lump sum payment of an amount equal to his then current base salary for 18 months. The employment

agreement also provides that if Mr. Firestone is terminated by Qualstar without cause or if he resigns for good reason within 12 months of a change in control, he will receive his accrued compensation and severance benefits which include, subject to certain conditions, (1) a lump sum payment of an amount equal to his then current base salary for 18 months; (2) payment of COBRA premiums for 18 months; (3) a lump sum payment equal to 100% of his target incentive bonus for his then current term, prorated as of his termination date, plus an additional 12 months target incentive bonus; and (4) accelerated vesting of all his then unvested stock options. "Cause" includes, among other acts, any act of fraud, embezzlement or dishonesty which materially adversely affects the business of Qualstar or any successor entity, any unauthorized use or disclosure of confidential information or trade secrets of Qualstar, any material act or omission involving malfeasance or gross negligence in the performance of the executive's duties and any material deviation from any of Qualstar's or a successor entity's policies. "Good reason" includes, among other acts, a demotion or material reduction in responsibility level, a decrease in level of his compensation by more than ten percent (10%), and a relocation of more than 30 miles from the executive's current work place.

A "change of control" is defined in Mr. Firestone's employment agreement as an acquisition by any person of beneficial ownership of 50% or more of Qualstar's voting stock, certain mergers or other business combinations involving Qualstar, the sale of all or substantially all of Qualstar's assets, the approval by Qualstar's shareholders of a liquidation or dissolution of Qualstar, or if, during any period of 12 consecutive months, a majority of the Board of Directors is replaced by individuals who were not approved by a vote of at least a majority of the directors then still in office who were directors at the beginning of the period. A copy of the employment agreement with Mr. Firestone was filed as an exhibit to Qualstar's annual report on Form 10-K for the fiscal year ending June 30, 2012.

## Tax Considerations

Under Section 162(m) of the Internal Revenue Code, we generally receive a federal income tax deduction for compensation paid to any of our named executive officers only to the extent total compensation does not exceed \$1.0 million during any fiscal year or if it is “performance-based” under Section 162(m). During fiscal year 2012, none of the executive officers of Qualstar had non-performance-based compensation in excess of \$1,000,000.

## COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed the foregoing Compensation Discussion and Analysis and has discussed its contents with Qualstar’s management and the Board of Directors. Based on the review and discussions, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

Submitted by the members of the Compensation  
Committee  
Stanley W. Corker (Chairman)  
Daniel C. Molhoek  
Robert A. Meyer

## RISKS RELATED TO COMPENSATION POLICIES AND PRACTICES

We believe that our compensation programs have been appropriately designed to attract and retain talent and properly incent our employees. To the extent our compensation programs provide for incentive-based compensation, these programs are designed to pay for performance and, thus, encourage only appropriate risk-taking. These programs are also subject to funding caps and oversight of the Compensation Committee and various functional departments of Qualstar to ensure that our employees, including our executive officers, are not encouraged to take excessive or unnecessary risks in managing our business. As a result, we believe that our compensation programs are not likely to create excessive risks that would have a material adverse effect on Qualstar.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Our Board of Directors has a standing Compensation Committee. During the fiscal year ended June 30, 2012 the members of this committee were Stanley W. Corker, Carl W. Gromada and Robert A. Meyer. On November 1, 2012, Daniel C. Molhoek replaced Mr. Gromada as a member of the committee. No executive officer of Qualstar serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors. No member of the Compensation Committee is, or ever has been, an employee or officer of Qualstar.

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following tables show information about the compensation earned by our principal executive officer, our principal financial officer, and our other executive officers who were serving as executive officers at June 30, 2012. These officers are referred to in this report as the “named executive officers.”





## Fiscal Year 2012 Summary Compensation Table

| Name and Principal Position   | Year | Salary (1)<br>(\$) | Bonus (1)<br>(\$) | Grant Date<br>Fair Value<br>of Option<br>Awards (2)<br>(\$) | All Other<br>Compensation<br>(3)<br>(\$) | Total<br>(\$) |
|---|------|--------------------|-------------------|---|--|---------------|
| Lawrence D. Firestone (6)<br>Chief Executive Officer and<br>President | 2012 | \$ 18,463          | \$ 75,000         | \$ 70,120   | \$ —                                     | \$ 163,583    |