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Initiation Report

Qualstar Corporation – Small-Cap Tape Storage Play with Big Data Tailwinds

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Rating	Target Price
BUY	**$8.25**
Initiating	*Initiating*

November 19, 2026

Disseminated on Behalf of Qualstar Corp.

All figures in USD unless otherwise stated

Qualstar Corporation	QBAK:OTCID
Rating	BUY
Target Price	$8.25
Return to Target	32%

Market Data	
Share Price	$6.25
Average Daily OTC Volume (K)	1.8
FD ITM Shares (M)	4.6
Market Cap ($M)	$28.5
Cash & Marketable Securities ($M)	$2.0
Debt ($M)	$0.1
Enterprise Value ($M)	$26.6

FYE Dec 31	2026E	2027E	2028E
Revenue ($M)	$7.5	$8.1	$9.1
Gross Margin (%)	25%	37%	39%
Adj. EBITDA ($M)	$0.5	$1.0	$1.4
Adj. EBITDA Margin (%)	7%	12%	15%
Net Income ($M)	($0.6)	$0.9	$1.2
EPS (Basic)	($0.16)	$0.21	$0.30
FCFF ($M)	($1.0)	$0.8	$1.1

Valuation	2026E	2027E	2028E
EV/EBITDA	N/A	27.5x	19.4x
P/E	N/A	30.4x	21.0x
EV/Sales	3.5x	3.3x	2.9x

Please refer to the applicable disclosures on the back page
Source: Atrium Research, CapitalIQ, Company Documents



Qualstar Corporation is a U.S.-based custom designer and distributor of data storage systems and high-efficiency power supply solutions. The Company operates through two primary brands: Qualstar, which provides automated magnetic tape libraries for data backup, recovery, and archival storage, and N2Power, which offers standard, semi-custom, and custom power supplies. Qualstar serves customers across telecommunications, networking, industrial, medical, gaming, and audiovisual markets, distributing its products globally through resellers, system integrators, and original equipment manufacturers (OEMs).

What you need to know:

- Qualstar has been in the data storage business for over four decades, specializing in tape library solutions.
- Due to the ever-increasing need for data (boosted by AI) and its respective storage/backup, tape is seeing renewed growth as a low-cost and energy efficient solution for storing cold data.
- Through new products and partnerships, we are expecting QBAK's revenue to accelerate going into 2027 and 2028, while the stock trades at a discount to its peers.

Qualstar Corporation (QBAK:OTCID) is a data storage solutions provider built on a four-decade history of specializing in tape-library solutions. With the ongoing shortage in memory products and the growing need for data storage across all industries, QBAK's products are positioned for strong growth and margin expansion. **We are initiating coverage on QBAK with a BUY rating and a $8.25/share target price.**

Investment Thesis Summary

Tape is Having its Moment. QBAK is positioned to be a leader in supplying data hardware and software to support the growing demand for data storage as AI-driven data growth, memory supply constraints, and rapidly rising costs push organizations toward cheaper, more energy-efficient alternatives. Strong industry shipment growth and the transition to LTO-10 create a multi-year hardware replacement cycle that could drive higher demand for the QBAK's solutions.

The Growing Need for Data Storage. As global data creation is expected to surpass 700 ZB by 2030 (including AI contributions), organizations increasingly require secure, cost-effective long-term storage solutions, while rising ransomware threats and growing adoption of stronger backup strategies reinforce demand for tape storage due to its offline security and ability to protect critical data.

New Products & Software. QBAK's launch of the *Q1000+ powered by Orion* product expands its reach beyond its traditional SME customer base into larger enterprise and data center markets, with potential order values increasing multi-fold, while its scalable, energy-efficient storage solutions and software partnerships strengthen its competitive positioning and create opportunities for incremental revenue growth. We are conservatively modelling 8% revenue growth in 2027 and 12% in 2028, with strong margin expansion.

Strategic Partnerships & Acquisitions. QBAK is expanding its international presence through distribution partnerships, including its August 2025 agreement with CMS Distribution, giving it access to resellers, managed service providers, and enterprise customers across the UK and Ireland. QBAK also plans to augment its growth with M&A to expand its geographic presence and product offering.

Management Ownership. Management collectively owns 78% of Qualstar, owned or controlled by President & CEO Steven N. Bronson. This substantial insider ownership aligns management's interests with those of shareholders.

Valuation. QBAK trades at 21.0x 2028E earnings and 19.4x 2028E EBITDA compared to its closest peer, Quantum Corporation (QMCO:NASDAQ) at 12.5x and 9.3x respectively, and small-cap peers at 17.3x and 9.4x, respectively.

Catalysts

- Quarterly Financial Results – Ongoing
- M&A and Strategic Partnerships – Ongoing

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Investment Thesis

We are initiating coverage on Qualstar Corporation (QBAK:OTCID) with a BUY rating and a target price of $8.25/share. Qualstar is a provider of data storage with over four decades in the data storage solutions market, specializing in linear-tape-open (LTO) libraries. With the ongoing shortage in memory and the growing need for data storage across all industries, tape is positioned to be a prominent product and QBAK is at the forefront of that. The Company has a strong balance sheet and an aligned management team.



Figure 1: Product Overview (Source: Company Documents)

Tape is Having its Moment

What is Tape?

Magnetic tape is one of the oldest forms of data storage still in use. Data is written to palm-sized linear tape-open cartridges that each hold up to 40TB and sit in automated libraries. Because tape is slower to access than flash or disk, it sits at the base of the data storage pyramid, holding cold data that organizations must keep for years but only occasionally retrieve, such as backups, archives, medical images, surveillance footage, and financial records.

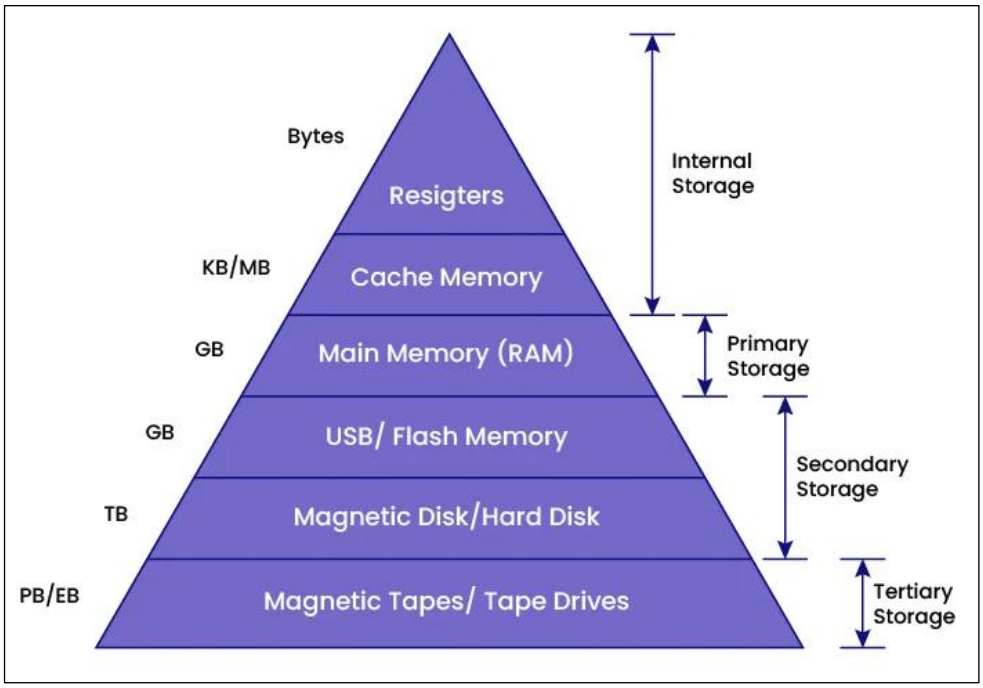


Figure 2: The Data Storage Hierarchy (Source: Medium)

Why Is Tape a Critical Storage Medium?

1) Tape is reliable and secure, protecting data for up to 30 years.
2) The hardware is "air-gapped" to safeguard against ransomware and cyberattacks.
3) Tape is accessible and scalable over the long term. Each cartridge can store terabytes of data and barcode tracking allows for scalable organization.
4) Lowest total cost of ownership (TCO) compared to alternatives.
5) ESG friendly due to low power consumption.

New-found Growth

Qualstar is entering a period of renewed demand for tape as the market struggles to keep up with the explosion in data storage demand driven by AI, high-resolution video, and rules that require this data to be stored for years. While Qualstar does it service hyperscalers and tier 1 markets, it is important to understand the landscape. Going down the pyramid, capacity rises and cost per GB falls, while speed decreases. AI is soaking up DRAM, HBM, and NAND capacity, which is what drives the memory shortage and higher prices in the upper tiers. Hard drive supply is also tight, pushing organizations to move their rarely accessed data down to the cheapest tier, which is tape. TrendForce data shows general-purpose DRAM contract prices rose 93-98% in Q1/26 and another 58-63% in Q2, with further increases of 10-15% for conventional DRAM and 15-20% for NAND expected in Q4. Samsung, SK Hynix, and Micron have reportedly sold all of their DRAM and HBM capacity for 2027, and Micron's CEO has said more than 75% of its 2027 output is already committed. SK Hynix's own investment timeline suggests meaningful new capacity is not expected before 2028 to 2029, and SK Group's chairman has said he expects the memory shortage to persist through 2030.

Sandisk, the largest U.S. pure-play flash supplier, has signed long-term agreements with eight customers covering about half of its FY27 bit shipments and about two-thirds of its FY28 bits. Western Digital and Seagate, which together make most of the world's hard drives, have effectively sold out their nearline capacity to AI hyperscalers, with long-term agreements through the next two to three years. Lead times have extended from a few weeks to over 52 weeks. All of these stocks are up multi-fold over the last two years. Our conversations with industry contacts suggest the picture is even tighter, with customers finding it nearly impossible to secure allocation for storage systems this year, lead times now stretching into 2028 and suppliers pushing through price increases monthly. With hyperscalers absorbing the bulk of available supply and even large enterprises struggling to secure the storage they need, the constraints facing small and medium-sized businesses, which make up much of Qualstar's customer base, are likely to be even more severe.

Tape, which sits outside the AI-driven memory crunch, is the natural home for the rapidly growing volume of data that is rarely accessed. One industry study estimated that storing 100 PB of data on tape over 10 years costs 78% less than disk and produces 97% less CO_2. In Q1/26, LTO capacity shipments were up 57% YoY, and alongside that, Amazon filed plans for a purpose-built tape storage facility in the UK and Quantum (QMCO:NASDAQ, $553M market cap) won an eight-figure tape library order from a hyperscaler. Importantly, data centers generate cold data, which needs to be stored, increasing the demand for tape further.

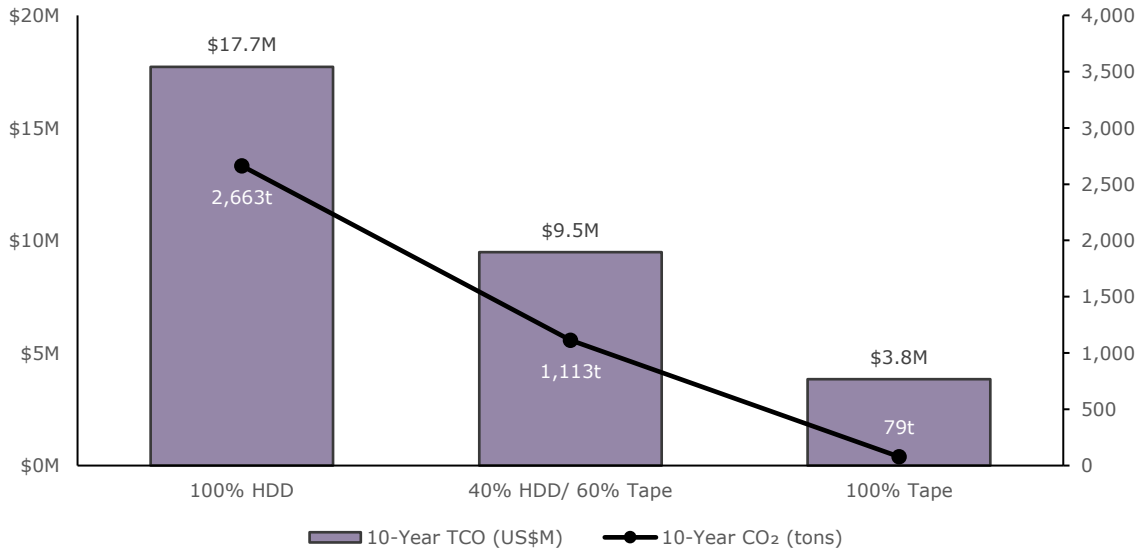


Figure 3: 10-Year Cost and CO_2 to Store 100 PB, Disk vs. Tape (Source: Brad Johns Consulting)

In addition, because LTO-10 (the newest generation) cannot read older cartridges, every tape customer moving to the new generation must also refresh its hardware, opening a multi-year replacement cycle that Qualstar is positioned to compete for with the Q1000+ and its ability to ship from inventory (typically $2-3M worth) while its competitors face longer lead times.

The Growing Need for Data Storage

The most recent forecasts expect the amount of data created each year globally to grow from 218 ZB (one zettabyte equals one billion terabytes) in 2025 to more than 718 ZB by 2030, more than tripling in five years as AI data, video, connected devices and digital records keep adding to the load. Most of this data is rarely touched once it is written, with industry estimates suggesting 60-80% of stored cold data goes untouched for a year or more (not the entire 218 ZB), yet organizations cannot delete it because of legal requirements, its future value for AI training or the risk of losing it.

Protecting this data has become just as important as storing it, and many organizations want to diversify their data storage approaches using **the 3-2-1 principle**, which applies the same logic as diversifying an investment portfolio.

- 3 separate copies of data
- 2 different storage types
- 1 off-site copy

Tape fits naturally into this framework as both the second storage type and the off-site copy, and because a cartridge can be removed from the library entirely, it gives organizations a copy that ransomware cannot reach. With the growing threats cybersecurity faces, being protected from ransomware matters more each year as attackers now go after backups directly, with one industry study finding that criminals tried to compromise backups in 94% of ransomware attacks in 2024, while a 2026 survey shows the average cost to recover from an attack, excluding any ransom, has risen to $1.7M. Having a copy that cannot be reached over the network has become a basic requirement for many organizations rather than something that is nice-to-have.

New Products & Software

QBAK's data storage business serves clients across media and entertainment, defense, oil & gas, healthcare, education and cloud, and the Company positions its libraries around four core use cases, ransomware recovery, cold storage for AI and high-performance computing (HPC), media preservation and long-term regulatory retention. Most of QBAK's customers have historically been small and medium-sized organizations. With Qualstar's Q1000+ powered by Orion, the Company is able to support larger enterprise organizations with higher data storage demands. Cold storage for AI and HPC is a newer and potentially much larger market, as the training datasets, model checkpoints and research output these workloads generate must often be kept for years after they are actively used.

Use Case	What It Does	Best-Fit Models	Key Industries
Cyber Recovery Vault	Offline, air-gapped copy of backups for ransomware recovery	Q24, Q40, Q80	Banking, government, surveillance
AI/HPC Cold Tier	Low-cost archive for AI training data and research output	Q40, Q80, Q1000+	Cloud data centres, IT, education
Media Preservation	Long-term archive of raw footage and finished content	Q24, Q40, Q80	Media, medical imaging, education
Regulatory Retention	Multi-year records storage that meets compliance rules	Q8, Q24, Q40	Banking, government, oil and gas

Figure 4: QBAK's Core Use Cases (Source: Company Documents)
Q1000+ can also be used for other categories

In February, QBAK launched the Q1000+ powered by Orion, which is a rack-scale library that holds up to 1,115 cartridges and 44.6 PB per rack with LTO-10 (the newest linear tape generation) while drawing under 300W at peak, and can be linked across multiple racks to build exabyte (EB) archives. The Q1000+ powered by Orion moves QBAK into the discussions of large enterprise and data center deployments, and management notes that orders can reach ~$200K compared with around $20K for a typical SME order. Because the Q1000+ powered by Orion can run both LTO-9 (the previous linear tape generation) and LTO-10 side by side, customers can move to the new generation without rewriting their existing archives.

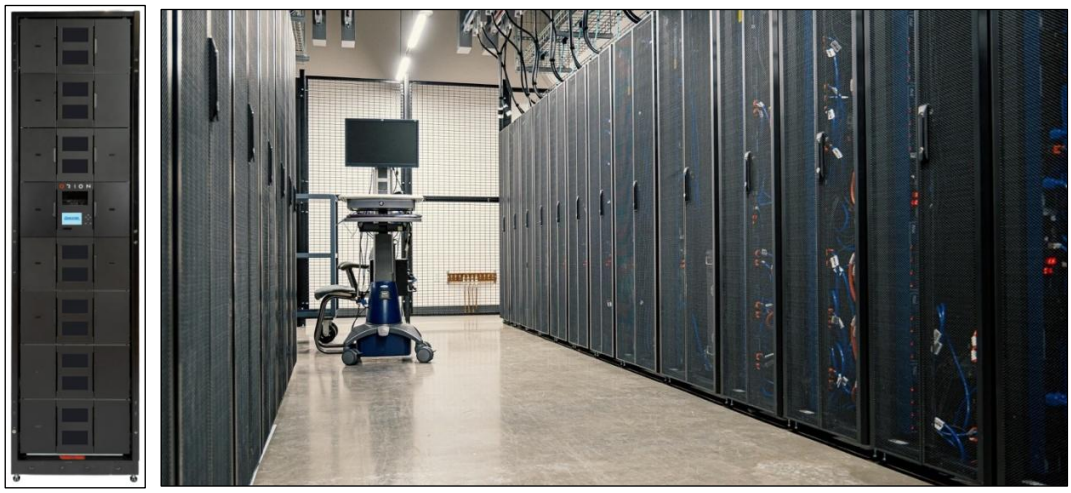


Figure 5: 1000+ Powered by Orion and a Typical Data Center Deployment (Source: Company Documents)

Unlike its competitors, which bundle their own software with their libraries, QBAK partners with independent software providers so customers can pair its libraries with the software best suited to their industry, such as a media company choosing a platform built for media and an insurer choosing one built for insurance, rather than being locked into a single option.

As for our model, we assume revenue growth of 8% in 2027, accelerating to 12% in 2028, when operating leverage starts to take hold and higher margin products represent a larger chunk of revenue. We forecast 39% gross margins and 15% EBITDA margins in 2028E.

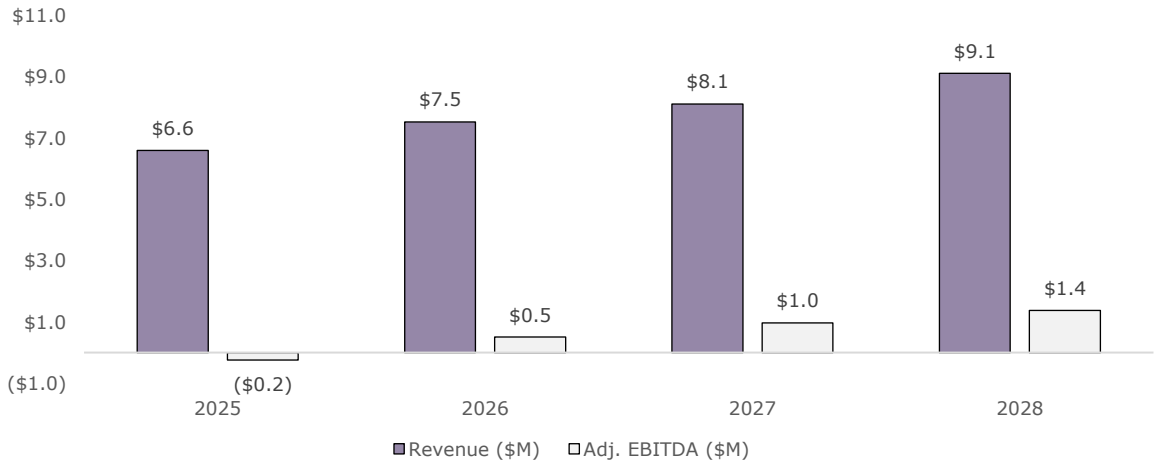


Figure 6: Revenue & Adj. EBITDA Projections

Strategic Partnerships & Acquisitions

QBAK plans to utilize strategic partnerships and acquisitions to leverage its public listing, having stated that it intends to buy businesses in data management software and hardware, along with adjacent areas such as AI, data analytics, and supercomputing. Mr. Bronson brings meaningful deal-making experience to this strategy, having decades of experience in M&A. He founded investment bank Bronson & Co., and serves as Chairman and CEO of Interlink Electronics, in which he has since led the acquisitions of SPEC Sensors and KWJ Engineering in 2022 and UK-based Calman Technology in 2023.

The focus on acquisitions would move Qualstar up in the value chain, creating recurring revenue from data management and owning software. The addition of complementary software can open doors to new clients and increase spend with existing clients. While no transaction has been announced, we believe the planned uplisting would strengthen this strategy by giving QBAK a stronger position to fund future acquisitions. Its $32.2M of federal net operating losses could also help shelter the future profits of acquired businesses.

Insiders Own ~78% of the Company

Qualstar is led by President and CEO Steven N. Bronson, who took the helm in July 2013 and has since steered the Company through a multi-year turnaround. Under his leadership, Qualstar exited in-house manufacturing in favour of an asset-light model built on OEM-sourced libraries and repurchased over 1.5M shares since 2021 while maintaining a debt-free balance sheet. Mr. Bronson brings over 35 years of experience in investment banking and corporate management, and in addition to his role at Qualstar, he serves as Chairman, President and CEO of Interlink Electronics (LINK:NASDAQ).

Mr. Bronson is by far the Company's largest shareholder, holding 526,200 shares directly and a further 2.67M shares through BKF Asset Holdings, which he controls, for a combined ~3.2M shares, or ~78% of the 4.1M shares outstanding. With director David Wolenski holding a further ~21K shares, the remaining public float is roughly 0.9M shares (~23%), which keeps trading liquidity thin today but leaves meaningful room for the shareholder base to broaden as the Company pursues its planned uplisting to a major U.S. exchange.

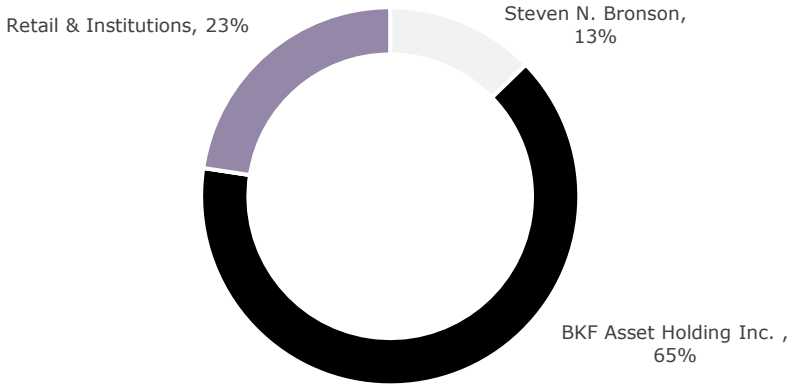


Figure 7: Ownership Summary

Valuation

Peer Group Analysis

We divide our peer group into two groups, large-cap storage incumbents and small-cap storage and hardware peers. On P/E, the large-cap group trades at an average of 13.5x/11.2x 2027E/2028E earnings, with NetApp and IBM at the highest levels. The small-cap group trades at 24.3x/17.3x earnings, pulled up by Backblaze Inc. On an EV/EBITDA basis, the small-cap group trades at 14.7x/9.4x and the large-caps trade at 10.0x/8.6x. **Quantum, which we view as Qualstar's closest public peer given its tape library business and role in the LTO consortium, trades at 16.4x/12.5x earnings and 13.2x/9.3x EBITDA.**

This compares to QBAK at 30.4x/21.0x 2027E/2028E earnings and 27.5x/19.4x 2027E/2028E EBITDA. We believe a premium is well deserved as the Q1000+ drives larger deals and margins while the planned uplisting broadens the Company's shareholder base.

Company	Ticker	Mkt Cap	EV	Sales CAGR 2025A-2028E	EBITDA Margin 2028E	EV/EBITDA 2026E	EV/EBITDA 2027E	EV/EBITDA 2028E	P/E 2026E	P/E 2027E	P/E 2028E
Large-Cap Storage Incumbents											
Dell Technologies Inc.	DELL	$199,251	$222,965	33%	12%	9.0x	7.8x	7.0x	12.0x	10.2x	8.7x
International Business Machines	IBM	$216,031	$272,113	5%	30%	13.4x	12.6x	11.9x	18.4x	17.3x	15.8x
Seagate Technology Holdings	STX	$118,451	$119,865	46%	63%	26.6x	10.5x	6.7x	37.1x	12.9x	7.9x
Hewlett Packard Enterprise Company	HPE	$60,758	$74,863	20%	21%	8.2x	6.9x	6.1x	12.0x	9.7x	8.4x
Netapp, Inc.	NTAP	$33,821	$32,779	10%	34%	17.4x	12.1x	11.1x	27.1x	17.2x	15.4x
Large Cap Average				**23%**	**32%**	**14.9x**	**10.0x**	**8.6x**	**21.3x**	**13.5x**	**11.2x**
Small-Cap Storage & Hardware Peers											
Quantum Corporation	QMCO	$553	$494	15%	13%	N/A	13.2x	9.3x	N/A	16.4x	12.5x
Climb Global Solutions, Inc.	CLMB	$796	$731	17%	8%	14.5x	11.3x	9.0x	29.6x	21.1x	15.7x
Backblaze, Inc.	BLZE	$441	$498	23%	31%	9.1x	7.3x	5.9x	22.5x	22.5x	23.3x
One Stop Systems, Inc.	OSS	$110	$93	29%	N/A	N/A	31.5x	13.5x	N/A	44.3x	17.7x
CSP, Inc.	CSPI	$73	$52	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Data I/O Corporation	DAIO	$27	$24	N/A	N/A	N/A	10.2x	N/A	N/A	17.3x	N/A
Small Cap Average				**21%**	**17%**	**11.8x**	**14.7x**	**9.4x**	**26.1x**	**24.3x**	**17.3x**
Universe Average				**22%**	**26%**	**14.0x**	**12.3x**	**8.9x**	**22.7x**	**18.9x**	**13.9x**
Qualstar Corporation	**QBAK**	**$29**	**$27**	**11%**	**15%**	**N/A**	**27.5x**	**19.4x**	**N/A**	**30.4x**	**21.0x**

Figure 8: Peer Group Analysis (Source: Capital IQ)

Target Price Derivation

For our target price, we use 2028 as our valuation year which will reflect the major growth initiatives being worked on currently. For 2028, we are expecting revenue of $9.1M (+12% YoY), adjusted EBITDA of $1.4M (15% margin), and earnings of $1.2M. We apply a 25x multiple onto our projected earnings, a premium to the small-cap peers shown above. We also value QBAK's tax loss carryforwards at $0.20 per dollar, equating to $6.4M. This results in an equity valuation of $37.2M, translating to a target price of $8.25/share. Our target price is equivalent to 3.2x 2028E sales.

Earnings Multiple Valuation	
2028E Earnings ($M)	$1.2
Earnings Multiple	25.0x
Equity Value	$30.8
(+) Tax Loss Carryfowards (at 0.2x)	$6.4
Total Equity Value	$37.2
Target Price (Rounded)	**$8.25**
Upside	*32%*

Figure 9: Target Price Calculation

		2028E Earnings Multiple				
		23.0x	24.0x	25.0x	26.0x	27.0x
2028E Earnings	$1.0M	$6.50	$6.75	$7.00	$7.00	$7.25
	$1.1M	$7.00	$7.25	$7.50	$7.75	$8.00
	$1.2M	$7.50	$8.00	**$8.25**	$8.50	$8.75
	$1.3M	$8.00	$8.25	$8.50	$8.75	$9.00
	$1.4M	$8.50	$8.75	$9.00	$9.50	$9.75

Figure 10: Sensitivity Analysis

Tear Sheet

Market Data	
Ticker	QBAK:OTCID
Stock Price	$6.25
Rating	BUY
Target Price	$8.25
Upside	32%
Market Cap ($M)	$28.5
Cash ($M)	$2.0
Debt ($M)	$0.1
EV ($M)	$26.6

Capital Structure	
Basic Shares Outstanding (M)	4.1
Warrants (M)	0.0
Options (M)	0.6
FD Shares (M)	4.8
FD ITM Shares (M)	4.6

Ownership	
Steven N. Bronson (Direct)	13%
BKF Asset Holding Inc. & Other Insiders	65%
Retail & Institutions	23%

Financial Estimates	2025A	Q1/26A	Q2/26A	Q3/26A	Q4/26E	2026E	Q1/27E	Q2/27E	Q3/27E	Q4/27E	2027E	2028E
Revenue ($M)	**6.6**	**1.4**	**2.1**	**2.0**	**1.9**	**7.5**	**1.5**	**2.3**	**2.2**	**2.1**	**8.1**	**9.1**
% YoY	*(18%)*	*(14%)*	*47%*	*1%*	*31%*	*14%*	*7%*	*8%*	*8%*	*8%*	*8%*	*12%*
Gross Profit ($M)	**2.1**	**0.4**	**(0.2)**	**0.9**	**0.8**	**1.9**	**0.6**	**0.8**	**0.8**	**0.8**	**3.0**	**3.6**
Gross Margin	*32%*	*26%*	*(10%)*	*46%*	*41%*	*25%*	*37%*	*37%*	*37%*	*37%*	*37%*	*39%*
Adj. EBITDA ($M)	**(0.2)**	**(0.2)**	**0.2**	**0.4**	**0.2**	**0.5**	**0.2**	**0.3**	**0.3**	**0.3**	**1.0**	**1.4**
EBITDA Margin	*(4%)*	*(14%)*	*8%*	*18%*	*8%*	*7%*	*13%*	*12%*	*12%*	*12%*	*12%*	*15%*
Adj. Net Income (Ex. SBC, $M)	0.0	0.0	(0.1)	0.4	0.2	0.4	0.2	0.3	0.3	0.3	1.0	1.4
Net Income ($M)	0.1	(0.1)	(1.1)	0.4	0.1	(0.6)	0.2	0.2	0.2	0.2	0.9	1.2
EPS (Basic)	0.02	(0.01)	(0.27)	0.09	0.03	(0.16)	0.04	0.06	0.06	0.05	0.21	0.30
FCFF ($M)	0.3	(0.3)	(0.4)	0.1	(0.5)	(1.0)	0.7	(0.5)	0.3	0.4	0.8	1.1

Figure 11: Tear Sheet

Company Overview

Business Model

Qualstar is a custom designer and one-stop provider of enterprise archival data storage hardware and software, specifically automated tape libraries that allow organizations to store large volumes of data on LTO tape cartridges for years or decades at a fraction of the cost of disk. Through its N2Power subsidiary, it sells compact power supplies to equipment manufacturers. Rather than building its own hardware, QBAK sources libraries from OEM suppliers and configures each system with the drives and media the customer requires before shipping it, along with ongoing service and support. Data storage now accounts for nearly 90% of revenue, with QBAK selling primarily through resellers, distributors, and system integrators to organizations that must retain large volumes of data for long periods, including media companies, government agencies, hospitals, universities and large enterprises.

Products

Qualstar's library portfolio is built to cover the full range of customers, from a small office backing up a single server to an enterprise archiving petabytes of data. The four Q-Series models are sold primarily to small and mid-sized organizations, while the newly launched Q1000+ extends the range into large enterprise deployments. The upgrade cycle is typically 3-5 years, staggered across clients. QBAK traditionally has not sold software but partnered with best-of-breed independent software providers to create bundles, an approach which management refers to as "Switzerland," as Qualstar is indifferent to whichever software its clients choose. QBAK also plans to introduce white-labelled software, becoming a one-stop solution.

- **Q8** – An entry-level 1U library with eight cartridge slots and a single drive for up to 144 TB of native capacity, designed for simple deployments at smaller organizations.
- **Q24** – A compact 2U library with 24 slots and up to two drives, scaling to 432 TB for mid-range backup, recovery and archive.
- **Q40** – A modular mid-enterprise system that expands in 3U steps from 40 to 640 slots and up to 48 drives for as much as 19.2 PB, with support for LTO-10.
- **Q80** – A high-density modular system for large archives that expands from 80 to 560 slots with up to 42 drives and 16.8 PB, also supporting LTO-10.
- **Q1000+** – A rack-scale enterprise library launched in February 2026 that holds up to 1,115 cartridges and 44.6 PB per rack with LTO-10, and can be linked across multiple racks to build exabyte-class archives.

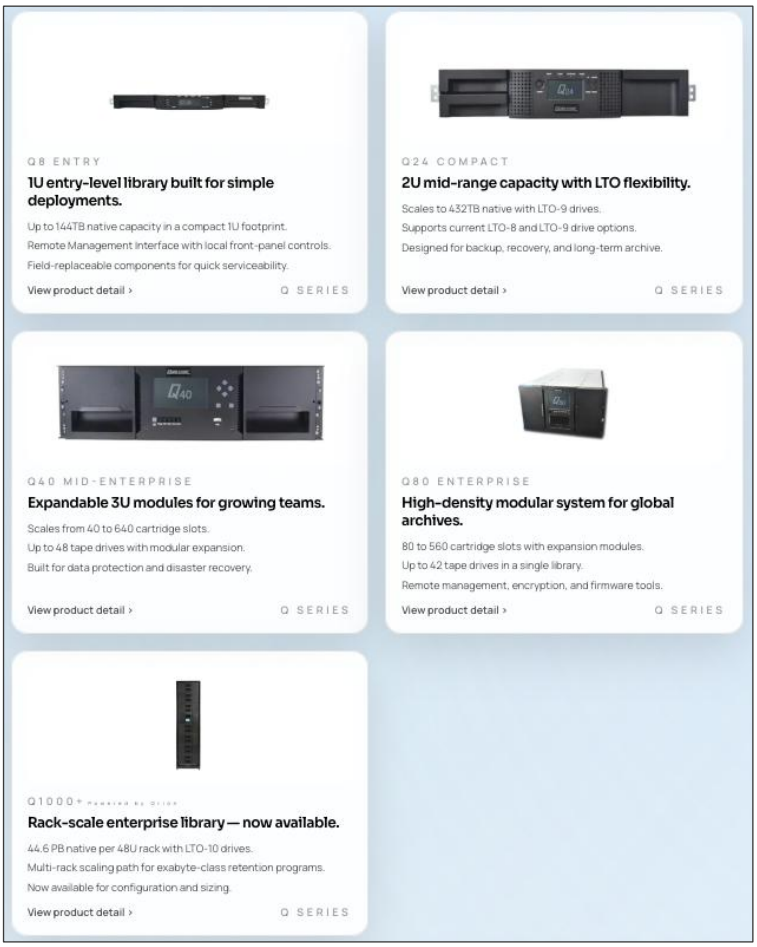


Figure 12: Qualstar Tape Library Portfolio (Source: Company Documents)

Revenue Model & Segments

Qualstar reports two segments: 1) Data Storage and 2) Power Supplies. Over the past few years, the Company has shifted from a roughly even split between the two segments to an almost pure-play tape business.

Data Storage

The Data Storage segment sells Qualstar's tape libraries along with the LTO drives, cartridges and service contracts that go with them, and it generated $5.5M in FY25, or 84% of total revenue. Momentum has continued in 2026, with segment revenue up 25% YoY to $5.1M in the first nine months of the year, or 92% of total revenue. Product sales made up 81% of segment revenue in FY25 and typically carry gross margins of 30-40%, while service contracts account for the remaining segment revenue and cover technical support, replacement parts, and on-site service, providing a layer of recurring revenue. Management noted that order sizes vary widely by customer, with orders from SMEs typically around $20K and large enterprise deployments reaching roughly $200K, meaning the Q1000+ launch could lift revenue meaningfully on relatively few additional orders.

Power Supplies

The Power Supplies segment operates under the N2Power brand which designs compact, high-efficiency power supplies from 40W to 750W that are built by contract manufacturers in Asia and sold to OEMs in telecom, industrial, medical, gaming and security screening equipment. Despite the recent decline in revenue (-64% in 2025), we believe the segment is positioned for a revival, as its long-standing OEM relationships give the Company a solid base to rebuild from. The segment has a low-cost structure and strong legacy relationships.

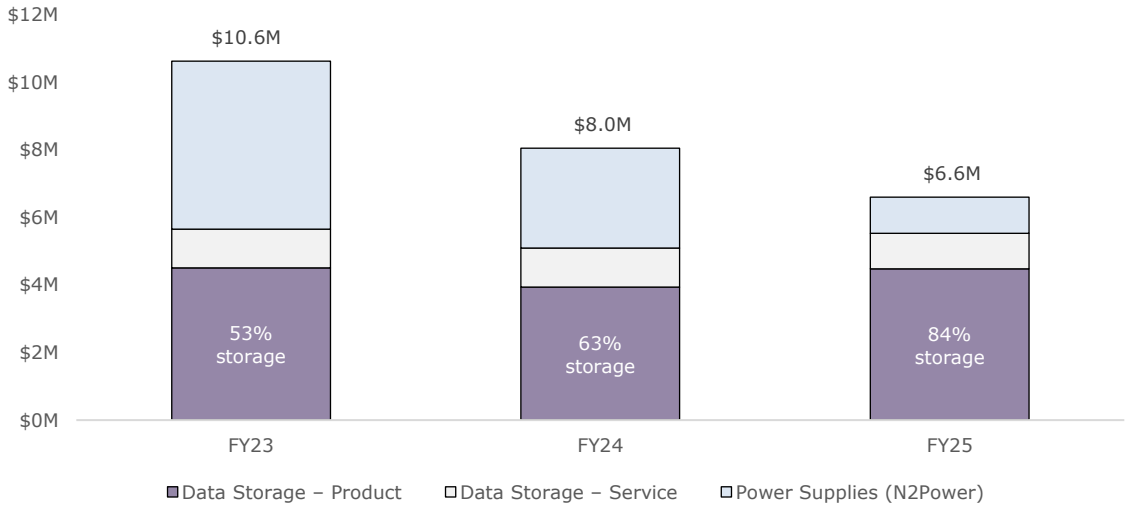


Figure 13: Revenue by Segment (Source: Company Documents)

Customers & Sales Channel

Qualstar sells its tape libraries business-to-business through three channels (resellers, system integrators, and OEMs), while its N2Power division sells power supplies mainly to OEMs directly.

- **Resellers** buy products from Qualstar and sell them to end customers, often bundling installation, configuration and maintenance services.
- **System integrators** design and build complete IT systems for their clients, combining Qualstar tape libraries with backup software, servers, networking equipment and other storage hardware.
- **OEMs** build Qualstar's products into larger storage systems that they sell under their own brand.

Its products serve a wide range of end markets. Here is how each industry benefits from LTO tape:

- **Banking and Financial Services** – Provides secure, long-term storage of financial records, transaction histories, and customer data while supporting regulatory compliance and disaster recovery.
- **Cloud Data Centers** – Offers a cost-effective, scalable solution for archiving large volumes of infrequently accessed data, reducing long-term storage costs.
- **Education** – Enables universities and research institutions to preserve academic records, research data, and digital archives over extended periods.
- **Government & Military** – Provides secure, offline storage of sensitive government records and classified information, protecting against cyberattacks and data loss.
- **Information Technology** – Supports enterprise data backup, disaster recovery, and long-term archiving while reducing reliance on expensive disk-based storage.
- **Media & Entertainment** – Enables studios and production companies to archive large video files, raw footage, and digital media assets cost-effectively.
- **Medical Imaging** – Provides reliable, long-term storage of large medical imaging files, including MRI, CT, and X-ray scans, supporting data retention requirements.
- **Oil & Gas** – Allows energy companies to archive large volumes of seismic surveys, geological data, and exploration records for future analysis.
- **Surveillance & Security** – Enables cost-effective, long-term retention of high-volume surveillance footage and security recordings for compliance and investigative purposes.

Most of Qualstar's branded storage products have historically been sold through value-added resellers (VARs), which resell hardware along with their own services, allowing the Company to tap into established customer relationships without building a large direct sales team. Qualstar supports this network through preconfigured systems, technical support and fast fulfillment, with most configured orders shipping within 48 hours. The Company has also partnered with CMS Distribution, a global technology distributor that represents more than 200 manufacturers and serves over 8,000 customers, to sell its data storage products to corporate resellers, managed service providers, retailers and IT companies across the UK and Ireland.

Qualstar generates revenue mainly from North America, Europe and Asia Pacific, and its geographic mix has been shifting toward international markets in recent years. As shown in the figure below, North America's share of revenue fell from 72% in FY23 to 57% in 9M/26, while Europe's share rose from 20% to 33% over the same period (including N2Power).

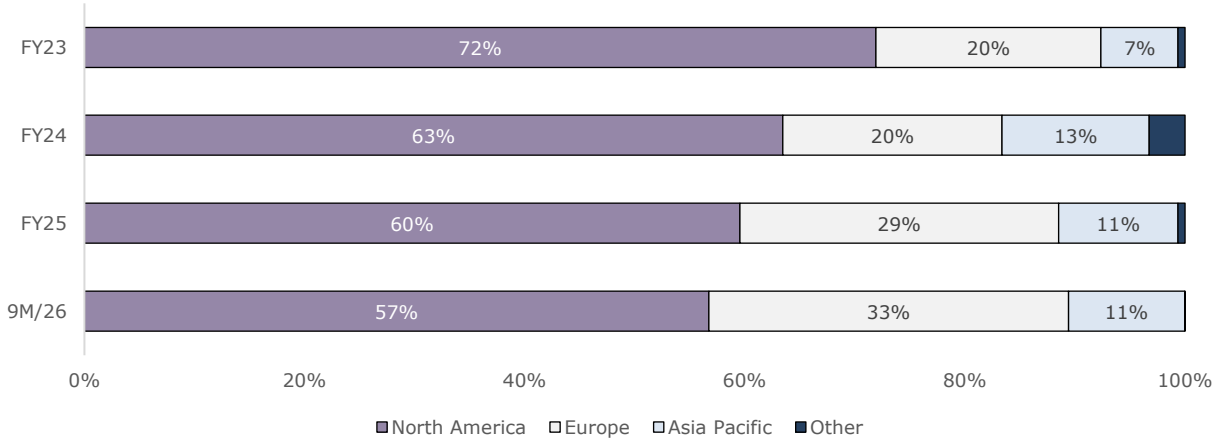


Figure 14: Revenue by Region (Source: Company Documents)

Case Study

CaribSys, a systems integrator in Puerto Rico, built a hybrid backup and archive platform for a client that needed protection against ransomware, equipment failures and data loss. The system combined a Qualstar LTO-9 tape library with HYCU backup software, Synology storage hardware and Wasabi cloud storage, with the tape library serving as an offline archive that network-based attacks cannot reach and that uses no electricity while cartridges sit idle. This made the setup well suited to Puerto Rico, where hurricanes and long power outages are common, while the cloud component kept a second copy of the data in another location.

Facilities

Qualstar is headquartered in Camarillo, California, where it configures and ships libraries for customers in the Americas from its office and warehouse facility. Orders for Asia are configured and shipped from the Company's facility in Shenzhen, China, while European orders are handled by a fulfilment and logistics partner in Warsaw, Poland. The Company also maintains a small sales office in Singapore and a UK subsidiary that supports sales across Europe and Africa.

Supply Chain

Qualstar no longer manufactures its own hardware and instead buys complete library systems from OEM suppliers overseas, before adding the drives and cartridges each customer needs. Every LTO drive on the market is built on a mechanism from IBM, as it is the only company still developing LTO drives. On-site installation and repair work for customers is handled by a combination of Qualstar's own team and third-party contract service providers. The N2Power segment relies on contract manufacturers in Asia to build its power supplies.

Because QBAK keeps libraries, drives and media on hand at each of its locations, it can ship most configured orders within 48 hours, compared with the six- to eight-week lead time of its larger competitors. The Company's data storage inventory rose from $1.0M at the end of FY25 to $2.0M at the end of Q3/26 alongside the growth in product sales.

Growth Strategy

With the Company now almost entirely focused on tape, management is pursuing growth through larger enterprise deals, a broader offering, and acquisitions. The Q1000+ powered by Orion, opens the door to larger, higher-value enterprise deals, and the move to LTO-10 gives QBAK a chance to win customers from other vendors as they refresh their hardware. We estimate that enterprise deals are 10x larger than SME deals. Rather than building its own software, the Company is partnering with independent providers so it can offer complete solutions for customers. This can include the tagging and retrieving of data, improving the customer experience.

Management is also looking to acquire companies in data management software and hardware, as well as adjacent areas such as AI and data analytics. As we mentioned above, we note that its $32.2M of federal net operating losses could help shelter future profits, including those of acquired businesses. To support these plans, QBAK has filed a Form 10 and plans to uplist to a major U.S. exchange, which should give it greater visibility with institutional investors.

History

Qualstar has been in the data storage business for more than four decades, starting as a maker of tape drives before moving into automated tape libraries in the mid-1990s. The Company has since gone through a public listing, an activist-led change of control, and a voluntary delisting, and it is now repositioning itself for growth with a new product lineup, an expanding international presence and plans to return to a major exchange.

- **1984 –** Founded in California to make magnetic tape drives for personal computers and workstations.
- **1995 –** Shifted its focus to automated tape libraries.
- **2000 –** Completed its IPO on the Nasdaq under the ticker QBAK.
- **2002 –** Acquired N2Power and expanded into power supplies.
- **2013 –** Mr. Bronson took control through a proxy fight and restructured the data storage business.
- **2014-2018 –** Expanded internationally, opening an engineering office in Singapore and adding subsidiaries in Asia, Africa and Europe.
- **2020 –** Voluntarily delisted from the Nasdaq to cut roughly US$300K in annual listing costs.
- **2022 –** Completed a reverse/forward stock split that cashed out shareholders with fewer than 1,000 shares.
- **2026 –** Reincorporated in Nevada, launched the Q1000+ enterprise tape library, completed a 3-for-1 stock split in April and began working toward a national exchange listing.

Financials

Balance Sheet

As of September 30th, QBAK had $2.0M in cash and marketable securities against $0.1M in debt (all leases). The Company had $5.8M in current assets compared to $1.5M in current liabilities, an excellent current ratio. Net cash per share equates to $0.44/share, representing 7% of the market cap. Most of the current assets are $2.2M in inventory, and the Company has little long-term assets. As such, the balance sheet is clean and supportive of growth. Capex requirements are minimal (zero through Q3), meaning that QBAK does not need to dilute shareholders to grow.

Capital Structure

QBAK has 4.1M shares outstanding, declining over the years from share repurchases. In 2024, QBAK repurchased $143K worth of stock and in 2025, repurchased $218K worth, with the share count declining by 2% in each year. During the last nine-months, QBAK repurchased 14K shares for an aggregate purchase price of $48K. The Company also completed a 3-for-1 stock split in April 2026. QBAK has 0.6M options outstanding at an average exercise price of $1.95/share with 4.19 years remaining on average, nearly all of which are held by CEO Steven Bronson. The outstanding options would provide $1.2M in proceeds if exercised.

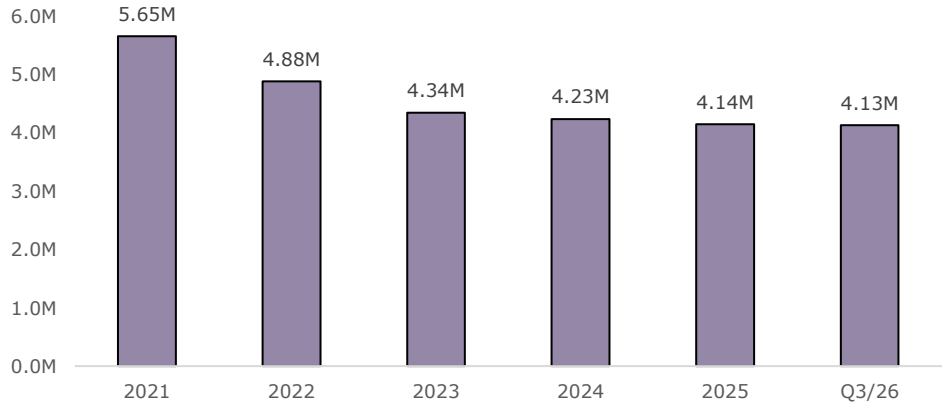


Figure 15: Declining Shares Outstanding

Financial Forecast

Our estimates for the coming two years can be found below. We are assuming the next couple quarters look similar to Q3 before ticking up higher into H2/27. For 2028, we are modelling 12% YoY revenue growth, gross margins rising to 39% and adjusted EBITDA of $1.4M (adjusted for ~$0.1M in annual SBC) as operating leverage takes hold. We will also note that adjusted gross margin for Q2 was 36% excluding the write down of slow-moving power supplies inventory (true gross margin is shown below).

Financial Estimates	2025A	Q1/26A	Q2/26A	Q3/26A	Q4/26E	2026E	Q1/27E	Q2/27E	Q3/27E	Q4/27E	2027E	2028E
Data Storage	5.5	1.3	1.9	1.9	1.8	6.9	1.4	2.1	2.1	2.0	7.6	8.6
Power Supplies	1.1	0.1	0.2	0.1	0.1	0.6	0.1	0.2	0.1	0.1	0.5	0.5
Revenue ($M)	**6.6**	**1.4**	**2.1**	**2.0**	**1.9**	**7.5**	**1.5**	**2.3**	**2.2**	**2.1**	**8.1**	**9.1**
% YoY	*(18%)*	*(14%)*	*47%*	*1%*	*31%*	*14%*	*7%*	*8%*	*8%*	*8%*	*8%*	*12%*
Gross Profit ($M)	**2.1**	**0.4**	**(0.2)**	**0.9**	**0.8**	**1.9**	**0.6**	**0.8**	**0.8**	**0.8**	**3.0**	**3.6**
Gross Margin	*32%*	*26%*	*-10%*	*46%*	*41%*	*25%*	*37%*	*37%*	*37%*	*37%*	*37%*	*39%*
Engineering	0.2	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.2	0.2
Sales and Marketing	0.7	0.2	0.2	0.1	0.1	0.7	0.1	0.2	0.2	0.2	0.6	0.7
General and Administrative	1.6	0.3	0.4	0.3	0.3	1.3	0.3	0.4	0.4	0.4	1.4	1.5
Operating Income ($M)	**(0.3)**	**(0.2)**	**(0.8)**	**0.4**	**0.3**	**(0.3)**	**0.2**	**0.2**	**0.2**	**0.2**	**0.8**	**1.2**
Operating Margin	*(5%)*	*(17%)*	*(39%)*	*21%*	*17%*	*(4%)*	*10%*	*10%*	*10%*	*10%*	*10%*	*13%*
Adj. EBITDA ($M)	**(0.2)**	**(0.2)**	**0.2**	**0.4**	**0.2**	**0.5**	**0.2**	**0.3**	**0.3**	**0.3**	**1.0**	**1.4**
EBITDA Margin	*(4%)*	*(14%)*	*8%*	*18%*	*8%*	*7%*	*13%*	*12%*	*12%*	*12%*	*12%*	*15%*
Income Taxes ($M)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income ($M)	0.1	(0.1)	(1.1)	0.4	0.1	(0.6)	0.2	0.2	0.2	0.2	0.9	1.2
EPS (Basic)	0.02	(0.01)	(0.27)	0.09	0.03	(0.16)	0.04	0.06	0.06	0.05	0.21	0.30
FCFF ($M)	0.3	(0.3)	(0.4)	0.1	(0.5)	(1.0)	0.7	(0.5)	0.3	0.4	0.8	1.1

Figure 16: Financial Forecast

Recent Announcements

On November 12th, QBAK reported Q3 financial results including revenue of $2.0M (+1% YoY), adjusted gross profit of $0.9M (+35% YoY), and adjusted EBITDA of $0.4M (vs. $70K in Q3/25). The data storage business generated 25% YoY revenue growth over the 9-month period. The Company ended the quarter with $2.0M in cash.

On November 4th, Qualstar announced the filing of a Form 10 with the SEC, reaffirming its intention to pursue an uplisting to a national securities exchange following its voluntary Nasdaq delisting in April 2020. The registration is expected to become effective January 3rd, 2027, representing a key step toward enhanced financial transparency, improved trading liquidity, and broader institutional investor participation.

On August 13th, Qualstar reported Q2/26 financial results, with revenue increasing 47% YoY to $2.1M from $1.4M, driven primarily by higher demand for tape-based data storage products, partially offset by declining power supply sales. Adjusted gross profit increased 59% to $765K, with adjusted gross margin improving to 36.4% from 33.7%. Adjusted EBITDA improved to $170K from a loss of $7K in the prior-year period.

On June 22nd, Qualstar announced it had been named Tape Storage Company of the Year at the Storage Awards 2026 in the United Kingdom. The award recognizes companies within the data storage industry, with winners selected through voting by storage professionals, channel partners, and end users.

On April 28th, Qualstar announced that its previously approved 3-for-1 forward stock split would become effective for OTC Markets trading on April 29th, following FINRA clearance. The Company's shares temporarily traded under the ticker QBAKD for 20 business days before returning to QBAK.

On February 11th, Qualstar announced the launch of its Q1000+ powered by Orion Enterprise Tape Library, designed for large-scale data backup, disaster recovery, and long-term archival storage. Available in 42U and 48U configurations, the system supports up to 44.6 PB of native storage capacity per rack and can scale across multiple racks to accommodate larger enterprise deployments.

Industry Overview

Tape has been the backbone of long-term data storage for decades, but exploding data volumes, a sold-out hard-drive market, and growing cyber and energy pressures are pulling it back into the mainstream.

Cold Data is Storage's Fastest-Growing Problem

AI training sets, high-resolution video, surveillance footage, and regulatory retention requirements are compounding the volume of data organizations must keep, yet most of it is rarely touched. Industry analysts estimate that 60-80% of stored data is infrequently accessed (cold). Much of it must also be kept for years by rule, from medical images retained for a patient's lifetime to surveillance footage and financial records, and AI developers increasingly need to preserve training datasets and model records. Keeping that data on always-on disk means paying for power, cooling and hardware refreshes on information that is almost never read, which is precisely the problem tape was built to solve.

At the same time, disk supply has become a bottleneck as AI hyperscalers absorb the world's nearline hard drive output. Western Digital (WDC:NASDAQ, ~$105B market cap), which makes hard drives, said back in January that it was nearly sold out for calendar 2026, with long-term agreements with key customers running into 2027 and 2028, while Seagate (STX:NASDAQ, ~$118B market cap) said in October that the vast majority of its nearline capacity is now allocated under long-term agreements through 2028, with some cloud agreements extending to 2030. Seagate also notes that it is growing supply through higher-capacity drives rather than producing more units, so the shortage is unlikely to ease in the near term. For enterprise buyers outside the hyperscale tier, the result has been longer lead times and meaningfully higher prices for disk-based storage.

Against this backdrop, tape demand is rebounding with LTO capacity shipments reaching a record 176.5 EB in 2024 (+15% YoY) before slipping 9% to 160.3 EB in 2025 as buyers held off ahead of LTO-10 media. The LTO Program, the consortium of IBM, HPE and Quantum behind the Ultrium LTO tape format, reported that shipments in Q1/26 were up 57% YoY, and the hyperscalers are leading the shift. Quantum Corporation noted in its latest 10-K that its Scalar libraries are used by the world’s largest hyperscalers and recently secured a deployment for a hyperscaler in the Asia-Pacific region reported to be worth well over eight figures, while Amazon filed plans in February 2026 for a purpose-built tape storage data center in Hemel Hempstead, UK. Market estimates vary widely, but IMARC Group sizes the global tape storage market at US$9.1B in 2025 and expects it to reach US$15.2B by 2034, a 6% CAGR.

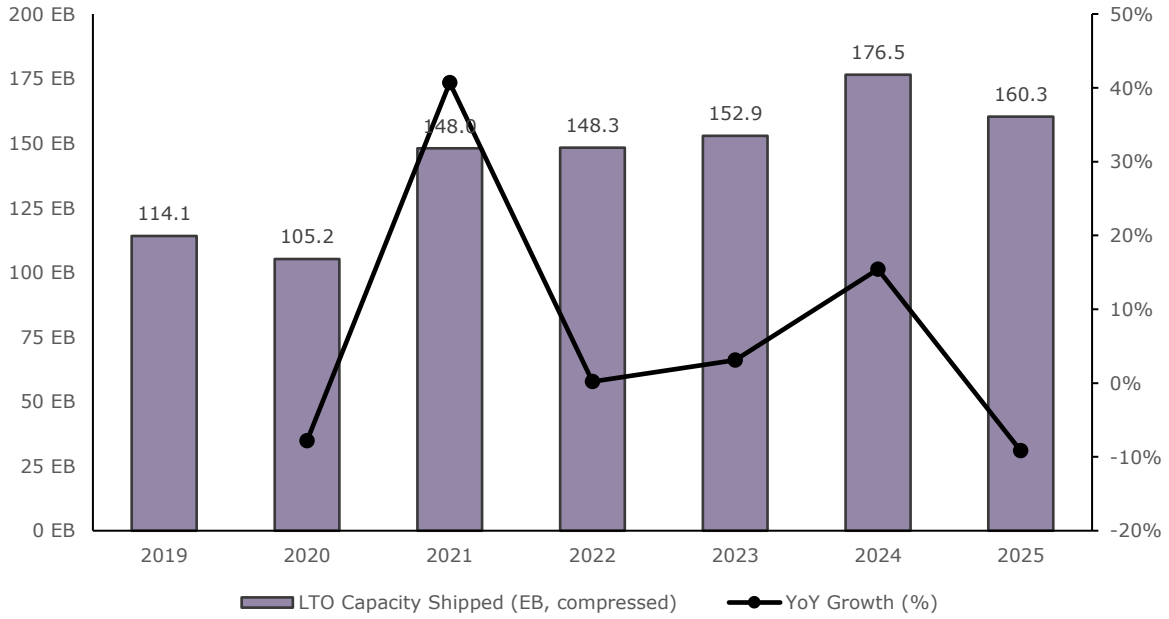


Figure 17: LTO Tape Capacity Shipments, 2019–2025 (EB, Compressed) (Source: Ultrium LTO)

Why Cold Data Belongs on Tape

Tape is not a replacement for flash or disk storage, since data that is used every day still needs storage that can retrieve it instantly, but it has become the most economical home for the long-retention data that must be kept for years or decades.

From a **cost** perspective, a study modelled storing 100 petabytes (PB) of data, which is comparable to the content of 100,000 laptops with a terabyte of storage each. Using an all-disk approach for ten years of data storage had an estimated cost of $17.7M, $9.5M for a 60/40 tape and disk mix and $3.8M for an all-tape approach, a saving of 78% versus disk. These costs are pushing many companies to use tape to store their long-retention data.

Tape also offers a level of **cyber resilience** that networked storage cannot match, because an ejected cartridge has no network connection and therefore cannot be reached or encrypted by ransomware. Organizations can also use write-once (WORM) cartridges, on which data cannot be changed or deleted once written, and LTO drives can encrypt data as it is recorded, which is why many organizations keep a tape copy as their backup of last resort if a cyber attack takes down everything else.

From an **energy usage and ESG** standpoint, a cartridge sitting in a library slot or on a shelf draws no power and does not require a chilled environment. In the same 100 PB study referenced above, the all-tape approach produced 79 tons of CO2 over ten years compared to 2,663 tons for the all-disk setup, which is a reduction of 97%. LTO media is also rated for ~30 years of life compared to the typical five-year replacement cycle that hard drives have.

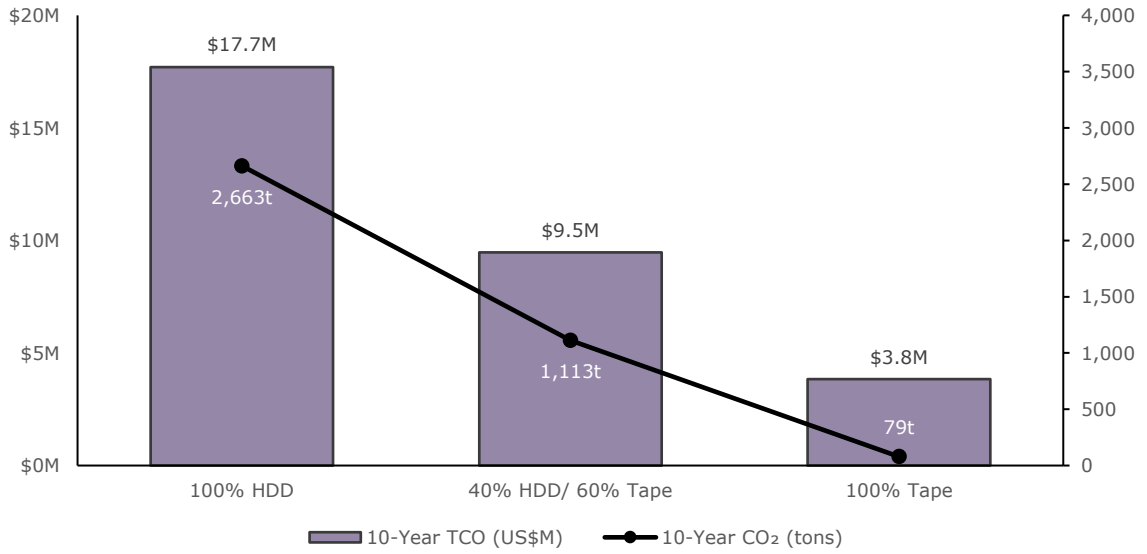


Figure 18: 10-Year Cost and CO2 to Store 100 PB, Disk vs. Tape (Source: Brad Johns Consulting)

The LTO Roadmap

Linear Tape-Open (LTO) is an open tape standard launched in 2000 and governed by the LTO Program, which sets the specifications that every compliant drive and cartridge must meet. Because any compliant drive can read a cartridge written by another vendor's drive, customers avoid being locked into a single supplier, although IBM is now the only company still developing LTO drive mechanisms, which makes it a supplier to every library vendor in the market, including its own competitors.

The LTO Program releases a new generation roughly every two to four years, with each one increasing the amount of data a single cartridge can hold. Capacity has grown from 100 GB with LTO-1 in 2000 to 2.5 TB with LTO-6 in 2012, 12 TB with LTO-8 in 2017 and 18 TB with LTO-9 in 2021, and drives have traditionally been able to read cartridges from the previous one or two generations, which allowed customers to upgrade gradually. LTO-10 launched in 2025 with 30 TB per cartridge, and a 40 TB cartridge followed in Q1/26. The consortium has planned four more generations through LTO-14, which is expected to hold 365 TB per cartridge.

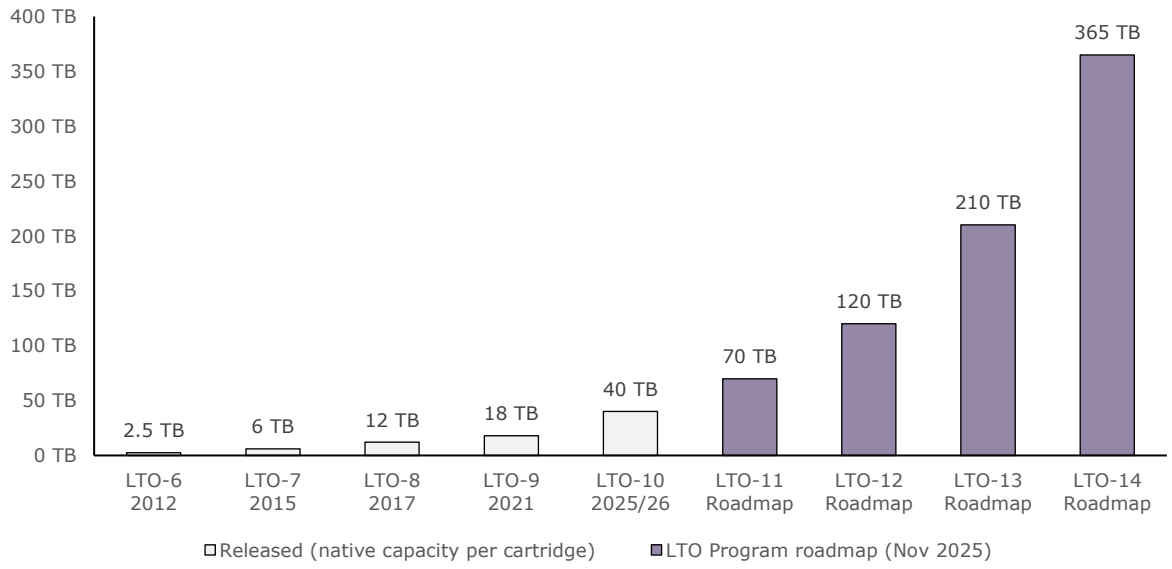


Figure 19: LTO Capacity per Cartridge by Generation (Source: Ultrium LTO)

Competitive Landscape

The tape library market is concentrated among a handful of vendors, with IBM, HPE and Quantum listed publicly and also governing the LTO standard, while Spectra Logic and BDT are privately held. For the larger players, tape is one product line within a much broader storage or IT portfolio, and their libraries are typically sold bundled with their own backup, archive or data management software.

Company	Tape Libraries	Bundled Software	Primary Focus
IBM	TS4300, TS4500	Storage Protect, Storage Archive	Enterprise; Sole LTO Drive Developer
HPE	StoreEver MSL series	HPE data-protection portfolio	Enterprise
Quantum	Scalar i3, i6, i7 RAPTOR	StorNext, ActiveScale	Enterprise
Spectra Logic	Stack, Cube, TFinity	BlackPearl, StorCycle	HPC, Media, Enterprise
BDT	FlexStor (largely OEM)	None (OEM supplier)	Entry-level, OEM
Qualstar	**Q-Series (Q8, Q24, Q40, Q80) and Q1000+**	**None; partners with independent software**	**SME to Enterprise**

Figure 20: Tape Library Competitive Landscape (Source: Company Documents)

Management & Board

Steven N. Bronson – President & CEO

Mr. Bronson brings over 35 years of experience in investment banking, corporate management, and business operations. He has served as President and CEO of Qualstar since July 2013, where he has overseen operational restructuring, cost reduction initiatives, and strategic growth opportunities. Mr. Bronson also serves as Chairman and CEO of BKF Capital Group and Chairman, President, and CEO of Interlink Electronics (LINK:NASDAQ). Earlier in his career, he founded Bronson & Co., an investment banking firm providing capital raising, M&A, and advisory services to public and private companies. His experience in corporate restructuring, acquisitions, and capital markets provides Qualstar with expertise in strategic growth and capital allocation. He holds ~526K shares of the Company directly, and another ~2.67M indirectly through BKF Asset Holdings, representing total ownership of 78% of outstanding shares.

Ryan J. Hoffman – Interim CFO

Mr. Hoffman has more than two decades of audit and financial reporting experience and serves as the Interim CFO of Qualstar and its N2Power subsidiary, where he oversees all financial functions and leads corporate development and acquisition activity. He also serves as CFO of Interlink Electronics, BKF Capital Group and Ridgefield Acquisition Corp. Before joining Qualstar, he spent approximately 16 years at RSM, the last five as an audit partner, leading audits of global technology, consumer products and manufacturing companies with a specialty in software and revenue recognition, after beginning his career at Ernst & Young. Mr. Hoffman holds a degree in Accounting from Chapman University.

David J. Wolenski – Chairman
Mr. Wolenski brings extensive experience in industrial manufacturing, engineering, and corporate management. He joined Qualstar's Board in June 2013 and was appointed Chairman in June 2014. Mr. Wolenski has since served as President of Electro-Mechanical Products, a manufacturer of precision-machined components and thermal management systems serving the semiconductor, laser, and medical device industries. Previously, he served as CEO of OZO Automation, a publicly traded manufacturer of robotic workstations for the electronics industry, where he oversaw the sale of the company's assets to JOT Automation. Following the transaction, he served as President of JOT Automation's Depaneling subsidiary. Earlier in his career, he held management positions at Johns Manville. Mr. Wolenski holds a degree in Mechanical Engineering from the University of Colorado and owns 0.5% of the shares outstanding.

Risks

Power Supplies Segment Struggling – Above Average
Power Supplies revenue fell 56% YTD after a 64% drop in 2025. The segment lost $1.1M before taxes, more than the total company loss of $0.8M, as the Data Storage segment earned $375K. The 2025 loss of a large customer and the $970K inventory write-down suggest demand problems that may not reverse. However, as of Q3, Power Supplies represents a small fraction of revenue; reducing exposure going forward.

Customer Concentration and Lumpy Revenue – Low
Two customers exceeded 10% of revenue in Q3. The business sells a small number of high-ticket tape libraries, so quarterly results can swing widely. Total revenue has also fallen from $8.0M in 2024 to $6.6M in 2025, so the 2026 rebound in Data Storage could prove temporary.

Lack of Consistent Profitability – Above Average
Qualstar has struggled to string together long-term profitability. The Company lost money in 2024, earned a thin profit in 2025 that came almost entirely from gains on its stock portfolio rather than operations, but has begun to show profitability in 2026. The Company has an accumulated deficit of $13.9M, reflecting a long history of losses.

Product & Competition Risk – Above Average
Qualstar sells a narrow product line: tape libraries (Q-Series and Q1000+) built by outside OEM suppliers and configured to order, plus N2Power power supplies made by contract manufacturers in Asia. Tape storage is a niche and is dominated by much larger players, while power supplies are a commodity-like market. With engineering spend of only about $133K YTD, Qualstar has little room to out-innovate rivals and relies on price, service and a handful of reseller and OEM relationships.

Illiquidity Risk – High
QBAK is a micro-cap that only trades 1.8K shares per day on average (~$11K). Controlling holders (CEO Steven Bronson and BKF Capital) own a large portion, which shrinks the public float even further. Low volume means wide bid-ask spreads and sharp price moves on modest orders, and it can be hard to build or exit a meaningful position without moving the stock.

Appendix

FD ITM Shares Calculation	
Basic Shares Outstanding	4.13
Dilutive ITM Shares	0.6
Proceeds	$1.2
Repurchased Shares	0.2
Adj. Dilutive ITM Shares	0.4
FD ITM Shares	**4.6**
Full Diluted	4.8

Figure 21: FD ITM Shares Calculation (Treasury Stock Method)

Disclosures

Analyst Certification
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