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QUALSTAR REPORTS SECOND QUARTER FISCAL YEAR 2003 RESULTS

***Cash Flow from Operations Financing R&D Investment;
New Rack Mount Products Gaining Customer Support***

SIMI VALLEY, Calif., January 30, 2003 — Qualstar® Corporation (Nasdaq: QBAK), a leading manufacturer of automated tape storage solutions, today reported financial results for the second quarter of fiscal 2003 ended December 31, 2002.

Revenues for the quarter were \$8.4 million, a 16.2 percent decrease from revenues of \$10.0 million reported for the same quarter of the prior year. Gross margin for the quarter was 37.4 percent, a slight decrease compared with 37.9 percent reported in the year-ago quarter.

As expected and due to the Company's increased focus on new product development, research and development costs for the second quarter grew to \$934,000, or 11.1 percent of revenues, from fiscal 2002 second quarter's \$521,000, or 5.2 percent of revenues. Sales and marketing expenses in the second fiscal quarter were \$1.0 million, or 12.5 percent of revenues, compared with \$803,000, or 8.0 percent of revenues, in the same quarter last year. General and administrative expenses for the quarter were \$1.0 million, or 12.4 percent of revenues, compared with \$894,000, or 8.9 percent of revenues, for the second quarter of fiscal 2002.

Net income for the second quarter was \$79,000, or \$0.01 per diluted share, compared with \$1.2 million, or \$0.10 per diluted share, for last year's quarter.

Cash, cash equivalents and marketable securities increased to \$35.9 million at the end of the second quarter from \$30.8 million at June 30, 2002 and \$33.6 million at September 30, 2002. The Company continued to generate positive cash flow from operations in the amount of \$2.3 million during the quarter ended December 31, 2002, driven primarily by reductions in accounts

receivable and inventory levels. The Company also decreased its days sales outstanding to 42 days as of December 31, 2002, compared with 60 days as of June 30, 2002 and 50 days as of September 30, 2002.

Commenting on the second quarter results, Bill Gervais, president and chief executive officer of Qualstar Corporation, stated, "We are disappointed that our top-line performance was near the low-end of our expectations as challenging economic conditions continue to delay IT spending. Despite the fact that demand continues to be weak, we remained profitable and generated cash from operations for the quarter, providing us additional resources to invest in the development of new products that will drive the long-term growth of Qualstar."

"We are seeing strong, positive customer response for our new rack mount products. Shipments of the first three models of our RLS Series are already in full swing. We are on track with our product introduction schedule and anticipate shipment of the fourth model in the family to occur at the end of this quarter with the fifth and final model shipping late next quarter," stated Mr. Gervais.

Providing an update on research and development efforts, Mr. Gervais added, "The Advanced Development Group is making excellent progress in the development of an enterprise-class library system. Our N2Power division is working on a new product line and we have hired additional salespeople in preparation for the launch."

Mr. Gervais concluded, "We continue to build on the sales momentum achieved during the second quarter for our RLS family of products. As customers evaluate data storage products currently available, we believe that they will increasingly turn to Qualstar's highly flexible, yet cost-effective solutions based on our long-standing reputation as a quality leader in the market."

Guidance

The Company expects that its fiscal third quarter revenues will be in the range of \$8.0 million to \$8.5 million. As a result of limited visibility, the Company will provide guidance for one quarter only. Investment in research and development is expected to increase as Qualstar focuses on developing next-generation products.

Qualstar Corporation Conference Call

Company management will hold a conference call to discuss its second quarter results today at 2:00 p.m. Pacific and 5:00 p.m. Eastern. Investors are invited to listen to the call live via the Internet under Investors at www.qualstar.com. Please go to the Web site at least 15 minutes early to register, download, and install any necessary audio software. A replay of the Webcast will be available for 30 days. Additionally, participants can dial into the conference call at 800-240-2134 or 303-262-2130. An audio replay will be available through February 6, 2003, by calling 800-405-2236 (303-590-3000 for international callers) and entering the passcode 523408.

About Qualstar Corporation

Founded in 1984, Qualstar Corporation is a leading manufacturer of automated tape libraries used for backup, archival storage, data protection and storage management applications. Its TLS-Series libraries are well known throughout the world for rugged, *Simply Reliable* designs yielding years of trouble-free operation. Qualstar Tape Libraries are sold, installed, and supported worldwide by selected Original Equipment Manufacturers, Value Added Resellers, and Systems Integrators. Qualstar Corporation is publicly traded on the NASDAQ Stock Market under the symbol QBAK. More information is available from Qualstar's web site (www.qualstar.com), or by phone at 805-583-7744.

Forward-Looking Statements

Statements in this press release concerning the future business, operating results and financial condition of the Company are "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995. Such statements are based upon management's current expectations and are subject to a number of uncertainties that could cause actual performance and results to differ materially from the results discussed in the forward-looking statements. Factors that could affect the Company's actual results include unexpected shortages of critical components, unexpected product design or quality problems, and adverse changes in market demand for tape libraries or Qualstar's products. The Company undertakes no obligation to publicly update any forward-looking statements whether as a result of new information, future events or otherwise. Further information on these and other potential factors that could affect the Company's financial results or condition are included in Qualstar's filings with the Securities and Exchange Commission.

- Financial Tables Follow -

QUALSTAR CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)
(UNAUDITED)

	<u>Three Months Ended</u> <u>December 31,</u>		<u>Six Months Ended</u> <u>December 31,</u>	
	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>
Net revenues	\$ 10,031	\$ 8,408	\$ 18,828	\$ 17,200
Cost of goods sold	<u>6,233</u>	<u>5,260</u>	<u>11,700</u>	<u>10,874</u>
Gross profit	3,798	3,148	7,128	6,326
Operating expenses:				
Research and development	521	934	990	1,767
Sales and marketing	803	1,049	1,308	1,905
General and administrative	894	1,043	1,726	1,940
Total operating expenses	<u>2,218</u>	<u>3,026</u>	<u>4,024</u>	<u>5,612</u>
Income from operations	1,580	122	3,104	714
Interest income	<u>328</u>	<u>102</u>	<u>626</u>	<u>386</u>
Income before income taxes	1,908	224	3,730	1,100
Provision for income taxes	<u>700</u>	<u>145</u>	<u>1,355</u>	<u>519</u>
Net income	<u>\$ 1,208</u>	<u>\$ 79</u>	<u>\$ 2,375</u>	<u>\$ 581</u>
Earnings per share:				
Basic	<u>\$ 0.10</u>	<u>\$ 0.01</u>	<u>\$ 0.19</u>	<u>\$ 0.05</u>
Diluted	<u>\$ 0.10</u>	<u>\$ 0.01</u>	<u>\$ 0.19</u>	<u>\$ 0.05</u>
Shares used to compute earnings per share:				
Basic	<u>12,439</u>	<u>12,576</u>	<u>12,439</u>	<u>12,562</u>
Diluted	<u>12,643</u>	<u>12,688</u>	<u>12,643</u>	<u>12,626</u>

QUALSTAR CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS	<u>June 30, 2002</u>	<u>December 31, 2002</u> (Unaudited)
Current assets:		
Cash and cash equivalents	\$ 16,363	\$ 27,681
Marketable securities	14,482	8,244
Receivables, less allowances of \$2,100 as of June 30 and \$1,943 as of December 31	6,695	3,819
Inventories	9,652	7,088
Prepaid expenses and other current assets	355	432
Prepaid income taxes	148	78
Deferred income taxes	<u>1,501</u>	<u>1,501</u>
Total current assets	49,196	48,843
Property and equipment, net	1,324	1,516
Other assets	<u>238</u>	<u>407</u>
Total assets	<u>\$ 50,758</u>	<u>\$ 50,766</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,590	\$ 871
Accrued payroll and related liabilities	308	353
Other accrued liabilities	693	519
Income taxes payable	<u>98</u>	<u>-</u>
Total current liabilities	2,689	1,743
Deferred income taxes	96	96
Shareholders' equity:		
Preferred stock, no par value; 5,000 authorized, no shares issued	-	-
Common stock, no par value; 50,000 shares authorized, 12,656 shares issued and outstanding as of June 30 and 12,705 as of December 31	20,751	20,709
Deferred compensation	(631)	(282)
Notes from directors	(387)	(360)
Accumulated other comprehensive income (loss)	(31)	8
Retained earnings	<u>28,271</u>	<u>28,852</u>
Total shareholders' equity	<u>47,973</u>	<u>48,927</u>
Total liabilities and shareholders' equity	<u>\$ 50,758</u>	<u>\$ 50,766</u>