

QUALSTAR CORP
Form PRE 14A
January 26, 2011
SCHEDULE 14A INFORMATION

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

Filed by the Registrant

Filed by a Party other than the Registrant

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 Section 240.14a-12

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

N/A
(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
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- (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:
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February [18], 2011

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Qualstar Corporation to be held on Thursday, March 24, 2011, at Qualstar's corporate headquarters located at 3990-B Heritage Oak Court, Simi Valley, California 93063, beginning at 9:30 a.m. Pacific Time.

At this meeting you will be asked to vote on each of the five proposals set forth in the attached Notice of Annual Meeting and Proxy Statement, which contains detailed information about each proposal and other matters related to the Annual Meeting. In addition to the formal business to be conducted, management will report on developments of the past year and respond to questions and comments of general interest to shareholders.

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

I look forward to seeing you at the Annual Meeting.

Sincerely,

William J. Gervais
Chief Executive Officer and President

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held on March 24, 2011

NOTICE IS HEREBY GIVEN that Qualstar's Annual Meeting of Shareholders (the "Annual Meeting") will be held at Qualstar's corporate headquarters located at 3990-B Heritage Oak Court, Simi Valley, California 93063, on Thursday, March 24, 2011, at 9:30 a.m. Pacific Time, for the following purposes:

1. To elect six directors to serve one year terms expiring at the next Annual Meeting of Shareholders, or until their successors have been duly elected and qualified;
2. To hold an advisory vote on executive compensation;
3. To hold an advisory vote on the frequency of the advisory vote on executive compensation;
4. To approve an amendment to our bylaws to increase the authorized number of directors to a range of not less than five nor more than nine;
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, 2011; and
6. To transact any other business as may properly come before the Annual Meeting and any adjournment thereof.

Shareholders of record at the close of business on February 10, 2011, are entitled to notice of, and to vote at, the Annual Meeting and any adjournment thereof. All shareholders are cordially invited to attend the Annual Meeting in person.

By Order of the Board of Directors

Nidhi H. Andalon
Secretary
Simi Valley, California
February [18], 2011

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

IMPORTANT NOTICE regarding the availability of proxy materials for the Annual Meeting of Shareholders to be held on March 24, 2011: This Proxy Statement and our annual report on Form 10-K for the fiscal year ended June 30, 2010 are available on Qualstar's website at

QUALSTAR CORPORATION

3990-B Heritage Oak Court
Simi Valley, California 93063

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
To be held on March 24, 2011

General Information

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Qualstar Corporation, a California corporation, for use at the Annual Meeting of Shareholders of the Company to be held on Thursday, March 24, 2011, at 9:30 a.m. Pacific Time. The Annual Meeting will be held at our corporate headquarters located at 3990-B Heritage Oak Court, Simi Valley, California 93063. Distribution of this Proxy Statement and the accompanying proxy to our shareholders will begin on or about February [18], 2011.

Voting and Solicitation of Proxies

On February 10, 2011, the record date with respect to this solicitation, 12,253,117 shares of our common stock were outstanding. No other securities are entitled to vote at the Annual Meeting. Only shareholders of record on such date are entitled to notice of and to vote at the Annual Meeting and at any adjournment thereof. 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 Annual Meeting and at any adjournment thereof.

Quorum. The holders of a majority of the outstanding shares of our common stock, present in person or by proxy and entitled to vote, will constitute a quorum at the Annual Meeting. 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 Annual Meeting for the transaction of business.

The Board’s Voting Recommendations. Our Board of Directors recommends that you vote your shares as follows:

- “FOR” each of the six nominees to the Board (Proposal 1);
- “FOR” the proposal regarding an advisory vote on executive compensation (Proposal 2);
- “EVERY YEAR” for the proposal regarding an advisory vote on the frequency of the advisory vote on executive compensation (Proposal 3);
- “FOR” approval of an amendment to our bylaws to increase the authorized number of directors to a range of not less than five nor more than nine (Proposal 4); and
- “FOR” approval of the appointment of SingerLewak LLP as the independent registered public accounting firm for the fiscal year ending June 30, 2011 (Proposal 5).

Vote Required. The six director nominees receiving the highest number of affirmative votes of the shares present or represented by proxy and entitled to vote will be elected as directors. Accordingly, proxies marked “withhold authority”

and broker non-votes will have no effect in determining which directors receive the highest number of votes.

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Approval of Proposals 2 and 5 will require the affirmative votes of a majority of the shares present or represented and entitled to be voted at the Annual Meeting. Proxies marked “abstain” as to Proposals 2 or 5 will be counted in the tabulation of the shares entitled to vote and, therefore, will have the same effect as a vote “against” the proposal. Broker non-votes will not be counted in determining the total number of shares entitled to vote on Proposals 2 or 5 and, therefore, will have no effect on whether Proposals 2 or 5 are approved.

For Proposal 3 (whether to hold the advisory vote on executive compensation every one, every two or every three years), the alternative that receives the greatest number of votes will be the frequency that shareholders choose. Abstentions will not be taken into account in determining the outcome of the vote on Proposal 3.

Approval of Proposal 4 will require the affirmative vote of a majority of the outstanding shares entitled to vote as of the record date of the Annual Meeting. Abstentions and broker non-votes are not affirmative votes and, therefore, will have the same effect as a vote against Proposal 4.

A “broker non-vote” occurs when a broker or other nominee holder of your shares cannot vote the shares held for you because you did not provide specific voting instructions on a matter considered to be non-routine under the rules of various national securities exchanges. The election of directors (Proposal 1), the advisory vote on executive compensation (Proposal 2), the advisory vote on the frequency of the advisory vote on executive compensation (Proposal 3), and the vote on the amendment of our bylaws (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.

The shares represented by all valid proxies received will be voted in accordance with the instructions specified therein. Unless otherwise directed in the proxy, the persons named therein will vote FOR the election of each of the six director nominees named below, FOR Proposals 2, 4 and 5, and “EVERY YEAR” for Proposal 3. As to any other business that may properly come before the Annual Meeting, the persons named in the enclosed proxy will vote in accordance with their best judgment. We presently do not know of any other business which will be presented for consideration at the Annual Meeting.

Solicitation. Proxies for use at the Annual Meeting are being solicited by our Board of Directors. Proxies will be solicited principally by mail. If desirable, to ensure a quorum at the Annual Meeting, our officers, directors, agents and employees may contact shareholders, banks, brokerage houses and others, by telephone, facsimile or in person to request that proxies be furnished. Qualstar will bear all expenses incurred in connection with this solicitation. These costs include reimbursements to banks, brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses in forwarding proxy materials to beneficial owners of our common stock. However, officers, directors and employees will not receive additional compensation for these services.

Revocability of Proxies

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 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 Annual Meeting, such notice or subsequent proxy should be delivered in person at the 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 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.

ELECTION OF DIRECTORS

(Proposal 1)

In accordance with Qualstar's bylaws, the number of directors constituting the Board of Directors is currently fixed at six. All six directors are to be elected at the Annual Meeting and will hold office until the next Annual Meeting of Shareholders and until their respective successors are elected and have qualified. It is intended that the persons named in the enclosed proxy will, unless such authority is withheld, vote for the election of the six nominees proposed by the Board. In the event that any of them should become unavailable prior to the Annual Meeting, the proxy will be voted for a substitute nominee or nominees designated by the Board, or the number of directors may be reduced accordingly. All of the nominees named below have consented to being named herein and to serve if elected. The Board has no reason to believe that any of the nominees will be unable to serve.

The following table provides information regarding the 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. Following the biography of each nominee is a brief 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
William J. Gervais (68)	William J. Gervais is a founder of Qualstar, has been our President and a director since our inception in 1984, and was elected Chief Executive Officer in January 2000. From 1984 until January 2000, Mr. Gervais also served as our Chief Financial Officer. From 1981 until 1984, Mr. Gervais was President of Northridge Design Associates, Inc., an engineering consulting firm. Mr. Gervais was a co-founder, and served as Engineering Manager from 1976 until 1981, of Micropolis Corporation, a former manufacturer of hard disk drives. Mr. Gervais earned a B.S. degree in Mechanical Engineering from California State Polytechnic University in 1967. Among other qualifications, Mr. Gervais' brings to the Board executive leadership skills and over 35 years experience in the data storage industry, including 27 years as the principal executive officer of Qualstar.
Richard A. Nelson (67)	Richard A. Nelson is a founder of Qualstar and has been a director since our inception in 1984. Mr. Nelson also served as our Vice President of Engineering and Secretary from our inception in 1984 until January 28, 2011, when he retired as an employee and officer. From 1974 to 1984, Mr. Nelson was self employed as an engineering consultant specializing in microprocessor technology. Mr. Nelson earned a B.S. in Electronic Engineering from California State Polytechnic University in 1966. Among other qualifications, Mr. Nelson brings to the Board expertise in microprocessor technology and data storage, which enable him to provide insight and perspective regarding the Company's two business segments, automated tape libraries and power supplies.
Stanley W. Corker (59)	Stanley W. Corker has served as a director of Qualstar since January 2006. Since 1996, Mr. Corker has been the Director of Technology Research and a partner of Emerald Asset Management, a diversified investment management firm. Prior to joining Emerald Asset Management, Mr. Corker obtained over 20 years experience in the computer storage industry from key roles in engineering and marketing at several manufacturers of tape drives, and as an industry analyst with International Data Corporation (IDC). Mr. Corker received a B.S. degree in Computer Science from the University of Essex, England in 1972, where he later conducted five years of postgraduate research in computer networking systems. Among other qualifications, Mr. Corker brings to the Board engineering and marketing

experience in the data storage industry, as well as expertise in financial analysis.

Carl W. Gromada (69) Carl W. Gromada has served as a director of Qualstar since March 2005. From 2000 to the present, Mr. Gromada has been a consultant and a private investor. From 1996 to 2000, Mr. Gromada served as Chief Executive Officer, and a member of the board of directors of Computer Resources Unlimited, Inc., a company involved in the design, manufacture and sale of a broad line of products for the computer storage industry. Mr. Gromada received a B.S. degree in Business Administration from Temple University in 1965. Among other qualifications, Mr. Gromada brings to the Board public accounting and internal audit experience, executive leadership experience, as well as experience with mergers and acquisitions.

Robert A. Meyer (66) Robert A. Meyer has served as a director of Qualstar since March 2006. Mr. Meyer is currently retired. From 1994 until June 2005, Mr. Meyer was employed in various management positions by United States Filter Corporation, a company engaged in the water treatment industry serving industrial, commercial and residential customers. His positions at United States Filter Corporation included Director of Finance, Business Development from 2000 to 2002, and Vice President of Internal Audit from 2003 until he retired in June 2005. Mr. Meyer received a B.S. degree in Accounting from C.W. Post College in 1972, and he is a Certified Public Accountant. Among other qualifications, Mr. Meyer brings to the Board expertise in finance and accounting, and executive management experience.

Robert E. Rich (60) Robert E. Rich has served as a director of Qualstar since January 2000. Mr. Rich has been engaged in the private practice of law since 1975 and has been a shareholder of Stradling Yocca Carlson & Rauth, legal counsel to Qualstar, since 1984. Mr. Rich received a B.A. degree in Economics from the University of California, Los Angeles in 1972 and his J.D. degree from the University of California, Los Angeles in 1975. Among other qualifications, Mr. Rich brings to the Board expertise in corporate governance, corporate and securities laws, and mergers and acquisitions.

CORPORATE GOVERNANCE

Director Independence

Our Board has determined that all of our directors satisfy the current “independent director” standards established by rules of The Nasdaq Stock Market, Inc. (“Nasdaq”), except for William J. Gervais, who is Chief Executive Officer and President of Qualstar, and Richard A. Nelson, who was Vice President Engineering and Secretary of Qualstar until January 28, 2011, when he retired. Each director serving on the Audit Committee of our Board also meets the more stringent independence requirements established by Securities and Exchange Commission rules applicable to audit committees. Mr. Robert E. Rich, a member of our Board of Directors since January 2000, is a shareholder in the law firm of Stradling Yocca Carlson & Rauth, which has provided legal services to Qualstar since 1984. Our Board has determined that no director 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 or executive officers of the Company.

Board of Directors and Committee Meetings

During the fiscal year ended June 30, 2010, our Board of Directors met 5 times and the committees of our Board held a total of 7 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 2010.

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

Although we have no formal policy requiring director attendance at annual meetings of shareholders, we schedule the annual meeting for a date that is convenient for all directors to attend. All directors who were elected at the 2010 annual meeting of shareholders attended that meeting.

Committees of the Board

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

The Audit Committee is comprised solely of non-employee directors who satisfy current Nasdaq standards with respect to independence, financial expertise and experience. The Audit Committee is currently comprised of Messrs. Corker, Gromada and Meyer, with Mr. Gromada serving as Chairman. Our Board of Directors has determined that both Mr. Gromada and Mr. Meyer meet the Securities and Exchange Commission'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 the Company, and appointment and oversight of the independent public accountants engaged to audit the Company's financial statements. A copy of our Audit Committee Charter is available in the investors section of the Company's website at www.Qualstar.com.

The Audit Committee held 6 meetings during fiscal 2010. To ensure independence, the Audit Committee also meets separately with our independent public accountants and members of management.

The Compensation Committee is comprised solely of independent directors. The Compensation Committee is currently comprised of Messrs. Corker, Gromada and Meyer, with Mr. Corker serving as Chairman. 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 held one meeting during fiscal 2010.

Processes and Procedures of the Compensation Committee. Our chief executive officer, William J. Gervais, plays an important role in formulating the compensation program for our executive officers. Mr. Gervais co-founded Qualstar in 1984, is the largest individual shareholder, and continues to serve full time as the Company's Chief Executive Officer and President. The Compensation Committee considers Mr. Gervais to be one of the most important employees of Qualstar, and highly values his insight and views on compensation matters. Mr. Gervais makes recommendations to the Compensation Committee regarding base salary, cash bonuses, and awards of equity-based long-term compensation of the executive officers, including his own compensation. The Compensation Committee takes Mr. Gervais' recommendations into account in determining the Committee's own recommendations regarding cash compensation, which are then presented to the full Board for approval.

We established a Nominating Committee on March 25, 2010. This committee is comprised solely of independent directors and currently includes Messrs. Corker, Gromada, Meyer and Rich, with Mr. Meyer serving as Chairman. The role of the Nominating Committee, as set forth in its charter, is to 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 Committee Charter is available in the investors section of the Company's website at www.Qualstar.com. The Nominating Committee did not hold any meetings during the fiscal year ended June 30, 2010, but met after the end of the fiscal year to recommend to the full Board each of the nominees for election to the Board, as presented in this Proxy Statement.

The guidelines and procedures for identifying and evaluating nominees for election to the Board are set forth in the Nominating Committee Charter. 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 the Company 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 of the Securities and Exchange Commission. The Committee does not have any policy regarding diversity in identifying nominees for director.

The Nominating Committee considers potential candidates recommended by current directors, company officers, employees and others, and will consider candidates recommended by shareholders to be considered 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, 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.

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

William J. Gervais co-founded Qualstar in 1984 and has served as our President since inception and also as our Chief Executive Officer since 2000. We do not have a Chairman of the Board, although Mr. Gervais effectively functions in that capacity at Board meetings. He is the largest individual stockholder of the Company and, in the view of the Board of Directors, he is the single most important employee. Qualstar is a small company and our Board consists of only six directors, four of whom are independent. For these reasons, our Board believes that it is not necessary to have a Chairman or a lead director.

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.

Shareholder Communications with the Board

Shareholders wishing to communicate with the Board of Directors or with an individual Board member concerning the Company 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 such shareholder communications will be forwarded to the director or directors to whom the communications are addressed.

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 the Company's website at 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 Securities and Exchange Commission 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, 2010, our officers, directors and greater than ten percent beneficial owners complied with all Section 16(a) filing requirements except as follows: Richard A. Nelson sold shares of our common stock on December 28 and 29, 2009 pursuant to a 10b5-1 trading plan. These sales were reported on a Form 4 that was filed on January 4, 2010.

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 February 10, 2011 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 Securities and Exchange Commission 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 February 10, 2011. Shares of common stock subject to options currently exercisable or exercisable within 60 days of February 10, 2011, are deemed outstanding for computing the percentage of the person holding such options, but are not deemed outstanding for computing the percentage 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.

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Name	Common Shares Owned	Options Exercisable Within 60 Days (1)	Beneficial Ownership Number	Percent	
BKF Capital Group, Inc. Steven N. Bronson (2) 225 N.E. Mizner Blvd., Suite 400 Boca Raton, FL 33432	1,563,400	—	1,563,400	12.8	%
Dimensional Fund Advisors LP (3) 6300 Bee Cave Road, Austin, TX 78746	943,028	—	943,028	7.7	%
Porter Orlin LLC (4) 665 Fifth Avenue, 34th Floor, New York, NY 10103	1,085,951	—	1,085,951	8.9	%
William J. Gervais	3,150,100	—	3,150,100	25.7	%
Richard A. Nelson	247,992	—	247,992	2.0	%
Stanley W. Corker	18,940	24,000	42,940	*	
Carl Gromada	48,271	24,000	72,271	*	