

BSQUARE CORP /WA  
Form DEF 14A  
November 01, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**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 Pursuant to §240.14a-12

**BSQUARE CORPORATION**

**(Name of Registrant as Specified in its Charter)**

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

Payment of Filing Fee (Check in the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the

Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

**BSQUARE CORPORATION**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON NOVEMBER 26, 2013**

TO THE SHAREHOLDERS:

Notice is hereby given that the 2013 Annual Meeting of Shareholders of BSQUARE Corporation, a Washington corporation (the "Company"), will be held on Tuesday, November 26, 2013 at 10:00 a.m., local time, at the Company's offices at 110 110th Avenue NE, Suite 200, Bellevue, Washington 98004, for the following purposes:

1. To elect Elliott H. Jurgensen, Jr., Harel Kodesh and Kendra A. VanderMeulen as Class I Directors, to serve for the ensuing three years and until their successors are duly elected and qualified;
2. To conduct an advisory vote on executive compensation;
3. To conduct an advisory vote on the frequency of future advisory votes on executive compensation;
4. To ratify the appointment of Moss Adams LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2013;
5. To adopt and approve an amendment to our Amended and Restated Articles of Incorporation to declassify our Board of Directors and provide for an annual election of directors; and
6. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on October 16, 2013 as the record date for the determination of shareholders entitled to vote at this meeting. Only shareholders of record at the close of business on October 16, 2013 are entitled to receive notice of, and to vote at, the meeting and any adjournment thereof.

All shareholders are invited to attend the meeting in person. However, to ensure your representation at the meeting, you are urged to mark, sign, date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose. Any shareholder attending the meeting may vote in person even if the shareholder has previously returned a proxy.

By Order of the Board of Directors

Scott C. Mahan

Senior Vice President, Operations,

Chief Financial Officer, Secretary and Treasurer

Bellevue, Washington

November 1, 2013

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on November 26, 2013: The proxy statement and annual report to shareholders are available at [www.bsquare.com/proxy](http://www.bsquare.com/proxy).

**BSQUARE CORPORATION**

**PROXY STATEMENT FOR THE 2013 ANNUAL MEETING OF SHAREHOLDERS**

**PROCEDURAL MATTERS**

**General**

The enclosed proxy is solicited by the Board of Directors of BSQUARE Corporation, a Washington corporation, for use at the 2013 Annual Meeting of Shareholders (the Annual Meeting ) to be held on Tuesday, November 26, 2013 at 10:00 a.m., local time, and at any adjournment thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held at the Company's principal executive offices at 110 110th Avenue NE, Suite 200, Bellevue, Washington 98004. The Company's telephone number at its principal executive offices is (425) 519-5900. As used in this proxy statement, we, us, our and the Company refer to BSQUARE Corporation.

These proxy solicitation materials were mailed on or about November 1, 2013 to all shareholders entitled to vote at the Annual Meeting.

**Record Date and Outstanding Shares**

Only shareholders of record at the close of business on October 16, 2013 (the record date ) are entitled to receive notice of and to vote at the Annual Meeting. The only outstanding voting securities of the Company are shares of common stock, no par value. As of the record date, 11,233,580 shares of our common stock were issued and outstanding, held by 129 shareholders of record.

**Revocability of Proxies**

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time prior to its use by delivering to the Secretary of the Company, at the address referenced above, a written instrument revoking the proxy or delivering a duly executed proxy bearing a later date (in either case no later than the close of business on November 25, 2013) or by attending the Annual Meeting and voting in person.

**Voting and Solicitation**

Each holder of common stock is entitled to one vote for each share held.

This solicitation of proxies is made by our Board of Directors, and all related costs will be borne by the Company. We may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Proxies may also be solicited by certain of our directors, officers or other employees without the payment of any additional consideration. Solicitation of proxies may be made by mail, by telephone, by email, in person or otherwise.

**Shareholders of Record and Street Name Holders**

Where shares are registered directly in the holder's name, that holder is the shareholder of record with respect to those shares. If shares are held by an intermediary, meaning in a stock brokerage account or by a bank, trust or other nominee, then the broker, bank, trust or other nominee is considered the shareholder of record as to those shares. Those shares are said to be held in street name on behalf of the beneficial owner of the shares. Street name holders generally cannot directly vote their shares, and must instead instruct the broker or other nominee how to vote their

shares using the voting instruction form provided by that broker or other nominee. Many brokers also offer the option of giving voting instructions over the internet or by telephone. Instructions for giving your vote as a street-name holder are provided on your voting instruction form.

### **Quorum; Abstentions; Broker Non-Votes**

At the Annual Meeting, inspectors of election will determine the presence of a quorum and tabulate the results of the voting by shareholders. A quorum exists when holders of a majority of the total number of outstanding shares of common stock that are entitled to vote at the Annual Meeting are present at the Annual Meeting in person or by proxy. A quorum is necessary for the transaction of business at the Annual Meeting. Abstentions and broker non-votes will be included in determining the presence of a quorum at the Annual Meeting.

Broker non-votes can occur as to shares held in street name. Under the current rules that govern brokers and other nominee holders of record, if you do not give instructions to your broker or other nominee, it will be able to vote your shares only with respect to proposals for which it has discretionary voting authority. A broker non-vote occurs when a broker or other nominee submits a proxy for the Annual Meeting but does not vote on a particular proposal because that holder does not have discretionary voting power with respect to that proposal, and has not received instructions from the beneficial owner.

The election of directors (Proposal No. 1), the advisory vote on the compensation of our named executive officers (Proposal No. 2), the advisory vote on the frequency of future advisory votes on the compensation of our named executive officers (Proposal No. 3), and the amendment of our Amended and Restated Articles of Incorporation to declassify our Board (Proposal No. 5) are proposals for which brokers do not have discretionary voting authority. If you do not instruct your broker how to vote on these proposals, your broker will not vote on them and those non-votes will be counted as broker non-votes. The ratification of the appointment of Moss Adams LLP as our independent registered public accounting firm (Proposal No. 4) is considered to be discretionary and your brokerage firm will be able to vote on this proposal even if it does not receive instructions from you, as long as it holds your shares in its name.

Abstentions and broker non-votes are treated as shares present for the purpose of determining whether there is a quorum for the transaction of business at the Annual Meeting. Abstentions and broker non-votes are not counted for determining the number of votes cast, and therefore will not affect the outcome of the vote on any of the proposals in this proxy statement.

### **Required Votes and Voting**

Assuming that a quorum is present at the Annual Meeting, the following votes will be required:

With regard to Proposal No. 1, the nominees for election to the Board of Directors who receive the greatest number of votes cast for the election of the director by the shares present, in person or by proxy, will be elected to the Board of Directors. Shareholders are not entitled to cumulate votes in the election of directors.

With regard to Proposal No. 2 and Proposal No. 4, approval of the proposal requires that the votes cast in favor of the proposal exceed the votes cast against it.

With regard to Proposal No. 3, the option of one year, two years, or three years that receives the highest number of votes cast will be the frequency for the advisory vote on executive compensation that is selected by the shareholders.



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With regard to Proposal No. 5, approval requires votes cast in favor of the proposal by holders of a majority of our common stock outstanding as of the record date.

All shares entitled to vote and represented by properly executed, unrevoked proxies received before the Annual Meeting will be voted at the Annual Meeting in accordance with the instructions given on those proxies. If no instructions are given on a properly executed proxy, the shares represented by that proxy will be voted as follows:

**FOR ALL** of the director nominees named in Proposal No. 1 of this proxy statement;

**FOR** Proposal No. 2, to approve the compensation of our named executive officers as disclosed in this proxy statement;

**FOR** one year on Proposal No. 3 regarding the proposed frequency of future advisory votes on executive compensation;

**FOR** Proposal No. 4, to ratify the appointment of Moss Adams LLP as our independent registered public accounting firm; and

**FOR** Proposal No. 5, to amend our Amended and Restated Articles of Incorporation to declassify our Board.

If any other matters are properly presented for consideration at the Annual Meeting, which may include, for example, a motion to adjourn the Annual Meeting to another time or place (including, without limitation, for the purpose of soliciting additional proxies), the persons named in the enclosed proxy and acting thereunder will have discretion to vote on those matters as they deem advisable. We do not currently anticipate that any other matters will be raised at the Annual Meeting.

### **Deadlines for Receipt of Shareholder Proposals**

Shareholder proposals may be included in our proxy statement and form of proxy for an annual meeting so long as they are provided to us on a timely basis and satisfy the other conditions set forth in Rule 14a-8 under the Securities Exchange Act of 1934, as amended, regarding the inclusion of shareholder proposals in company-sponsored proxy materials. We currently anticipate holding our 2014 annual meeting of shareholders in June 2014, although the Board may decide to schedule the meeting for a different date. For a shareholder proposal to be considered pursuant to Rule 14a-8 for inclusion in our proxy statement and form of proxy for the annual meeting to be held in 2014, we must receive the proposal at our principal executive offices, addressed to the Secretary of the Company, no later than January 4, 2014. Submitting a shareholder proposal or director nomination does not guarantee that it will be included in the Company's proxy statement and form of proxy.

In addition, a shareholder proposal that is not intended for inclusion in the Company's proxy statement and form of proxy under Rule 14a-8 shall be considered timely within the provisions of our Bylaws and may be brought before the 2014 annual meeting of shareholders provided that we receive information and notice of the proposal in compliance with the requirements set forth in our Bylaws, addressed to the Secretary of the Company at our principal executive offices, no later than March 15, 2014. A copy of the full text of our Bylaws may be obtained by writing to the Secretary of the Company at our principal executive offices.

We strongly encourage any shareholder interested in submitting a proposal to contact the Secretary of the Company in advance of these deadlines to discuss any proposal he or she is considering, and shareholders may want to consult knowledgeable counsel with regard to the detailed requirements of applicable securities laws. All notices of shareholder proposals, whether or not intended to be included in the Company's proxy materials, should be in writing and sent to our principal executive offices, located at: BSQUARE Corporation, 110 110th Avenue NE, Suite 200, Bellevue, Washington 98004, Attention: Secretary.

## PROPOSAL NO. 1

### ELECTION OF DIRECTORS

#### General

Our Articles of Incorporation provide that the Board of Directors has seven seats. One seat is currently unoccupied, as Brian Crowley stepped down from his role as a director on September 23, 2013, as described in the Current Report on Form 8-K we filed with the Securities and Exchange Commission ( SEC ) on September 23, 2013. Mr. Crowley also stepped down as President and Chief Executive Officer effective September 30, 2013. Jerry Chase, a current director whose biographical details are given below, currently serves as Interim Chief Executive Officer.

The Board of Directors is currently divided into three classes, with each class having a three-year term. For a description of our proposal to declassify the Board of Directors, see Proposal No. 5 below. The Governance and Nominating Committee and the Board of Directors have decided to leave the open director position vacant while considering the selection of a new Chief Executive Officer, who the Board expects will also serve as a director.

A director serves in office until his or her respective successor is duly elected and qualified, unless the director is removed, resigns or, by reason of death or other cause, is unable to serve in the capacity of director. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of an equal number of directors. Set forth below is certain information furnished to us by each director nominee and by each of the incumbent directors whose terms will continue following the Annual Meeting. There are no family relationships between any of our directors or officers.

#### Nominees for Director

Three Class I directors are to be elected at the Annual Meeting for a three-year term ending in 2016. The Governance and Nominating Committee of the Board of Directors has nominated Elliott H. Jurgensen, Jr., Harel Kodesh and Kendra A. VanderMeulen for election as Class I directors. Each nominee is a current director. Mr. Jurgensen and Ms. VanderMeulen were each elected by the shareholders at the 2010 annual meeting, and Mr. Kodesh was appointed by the Board in July 2013 to fill one of the vacancies created by the resignations of Messrs. Howse and Land in July 2013 as described below.

Unless otherwise instructed, the proxy holders will vote the proxies received by them *for* the election of Elliott H. Jurgensen, Jr., Harel Kodesh and Kendra A. VanderMeulen to the Board of Directors. Each has indicated that they will serve if elected. The Company does not anticipate that the nominees will be unable or unwilling to stand for election, but if that occurs, all proxies received may be voted by the proxy holders for another person nominated by the Governance and Nominating Committee. As there are three nominees, proxies cannot be voted for more than three persons.

#### Vote Required for Election of Directors

If a quorum is present, the nominees for election to the Board of Directors receiving the greatest number of votes cast for the election of the directors by the shares present, in person or by proxy, will be elected to the Board of Directors.

#### Nominees and Continuing Directors

The names and certain information as of October 1, 2013 about the nominees and each director continuing in office after the Annual Meeting are set forth below. As disclosed in the Current Report on Form 8-K we filed with the SEC on July 1, 2013, effective July 1, 2013 Elwood D. Howse, Jr. and Scot E. Land resigned from the Board of Directors.

There were no disagreements as contemplated by Item 5.02(a) of Form 8-K. Also effective

July 1, 2013, upon the recommendation of the Governance and Nominating Committee of the Board, Jerry Chase and Harel Kodesh were appointed as members of the Board to fill the vacancies created by the resignations of Messrs. Howse and Land. In addition, as noted above, Mr. Crowley stepped down from the Board on September 23, 2013.

Name of Director Nominee	Age	Position	Director Since	Term Expires
Elliott H. Jurgensen, Jr	68	Director	2003	2013 (Class I)
Harel Kodesh	55	Director	2013	2013 (Class I)
Kendra A. VanderMeulen	62	Director	2005	2013 (Class I)

Name of Continuing Director	Age	Position	Director Since	Term Expires
Jerry D. Chase		Director; Interim Chief		
	53	Executive Officer	2013	2015 (Class III)
Andrew S.G. Harries	51	Chairman of the Board	2012	2014 (Class II)
William D. Savoy	49	Director	2004	2015 (Class III)

Elliott H. Jurgensen, Jr. has been a director since January 2003 and served as Chairman of the Board from October 2008 to July 2013. Mr. Jurgensen retired from KPMG LLP, an international public accounting firm, in January 2003 after 32 years, including 23 years as an audit partner. During his public accounting career at KPMG, he held a number of leadership positions, including Managing Partner of the Bellevue, Washington office from 1982 to 1991 and Managing partner of the Seattle, Washington office from 1993 to 2002. He is also a director of ASG Consolidated LLC, a large privately owned seafood catcher processor company, and Tableau Software, Inc., a publicly owned business intelligence software company. Mr. Jurgensen was also a director of McCormick & Schmick's Seafood Restaurants, Inc., a publicly owned restaurant operating company, from July 2004 until December 2011 when it was sold; a director of Isilon Systems, Inc., a publicly owned data storage and management company from April 2006 to December 2010 when it was sold; and a director of Varolii Corporation, a privately owned software messaging service company, from August 2007 to June 2011 when he resigned. Mr. Jurgensen has a B.S. in accounting from San Jose State University. His career at KPMG gives him the requisite experience to qualify as an audit committee financial expert having financial sophistication for audit committee purposes. The Board of Directors has concluded that Mr. Jurgensen should serve as a director because he brings to our Board of Directors substantial financial expertise that includes extensive knowledge of the complex financial and operational issues facing publicly-traded companies, and a deep understanding of accounting principles and financial reporting rules and regulations. He also brings professional service expertise, technology industry experience, experience as a public company board member, and sales and marketing experience at KPMG.

Harel Kodesh has been a director since July 2013. He currently serves as the Chief Executive Officer of Nurego Inc., a company dedicated to Cloud Business Operation Management Systems. Previously Mr. Kodesh managed the Cloud Infrastructure Business at EMC, served as the CEO of Mozy, a wholly owned subsidiary of EMC dedicated to Backup as a Service. Between 2003 and 2008 Mr. Kodesh worked at Amdocs, serving as its Chief Product Officer and member of the management board where he had overall responsibility for Amdocs' product lineup. Prior to Amdocs, Mr. Kodesh served as the CEO of Wingcast, a joint venture between the Ford Motor Company and Qualcomm that developed a worldwide telematics solution. Before that, until 2000, he held a variety of executive positions at Microsoft in Redmond, Washington, most recently, as the Vice President and founder of the Information Appliances Division where he led the development and marketing of the Microsoft Windows CE (also known as Windows Mobile) operating system and pioneered Microsoft's mobility business through products like PocketPC, AutoPC, Microsoft's Smartphone and others. Earlier in his career at Microsoft, Harel managed the Object Linking and Embedding (OLE) team, which created the Component Object Model, a key technology used in the Windows operating system. He also previously worked for Motorola, where he managed a team responsible for Motorola's early efforts in wireless data. Mr. Kodesh holds a Bachelor of Science degree in computer engineering and a Master of Science degree in electrical engineering from the Technion, Israel Institute of Technology. The Board of Directors has

concluded that Mr. Kodesh should serve as

a director because of his deep expertise and experience with respect to Microsoft's mobility and embedded business as well as in telematics, enabling him to provide our management team and Board of Directors with valuable strategic leadership and advice. In addition, his experience as a chief executive officer and in various other executive roles allows him to provide important operational and executive leadership guidance.

Kendra A. VanderMeulen has been a director since March 2005. Ms. VanderMeulen is currently the President of the National Christian Foundation, Seattle, a position she has held since 2007. She served as Executive Vice President, Mobile at InfoSpace from May 2003 to December 2004, and is an active board member or advisor to a variety of privately held companies in the wireless Internet arena, including Inrix, Inc. Ms. VanderMeulen joined AT&T Wireless (formerly McCaw Cellular Communications) in 1994 to lead the formation of the wireless data division. Prior to McCaw Cellular Communications, Ms. VanderMeulen served as Chief Operating Officer and President of the Communications Systems Group of Cincinnati Bell Information Systems (now Convergys). She also held a variety of business and technical management positions at AT&T in the fields of software development, voice processing, and signaling systems. Ms. VanderMeulen received a B.S. in mathematics from Marietta College and an M.S. in computer science from Ohio State University. She is the recipient of the 1999 Catherine B. Cleary award as the outstanding woman leader of AT&T. Ms. VanderMeulen has broad industry experience both in management and as a board member. She also brings experience in managing product development, sales and marketing efforts, mergers and acquisitions, and directly managing engineering efforts. The Board of Directors has concluded that Ms. VanderMeulen should serve as a director because of her experience in and deep understanding of the wireless Internet industry in which we compete. Her experience at AT&T has provided her with broad leadership and executive abilities, and her outside board experience as director of other technology companies enables her to provide essential strategic and corporate governance leadership to our management team and Board of Directors.

Jerry D. Chase has been a director since July 2013 and has served as our Interim Chief Executive Officer since September 2013. From September 2004 to July 2007, Mr. Chase served as CEO and director of Terayon (TERN), a publicly traded cable, satellite and telecom supplier of digital video networking applications. From February 2008 to June 2011, Mr. Chase served as CEO and director of Lantronix (LTRX), a publicly traded provider of secure software, and embedded and external hardware solutions. Prior to serving as the CEO of Terayon, Mr. Chase was Chairman and CEO of Thales Broadcast & Multimedia (TBM), a supplier of transmission, digital video and test equipment to television and radio broadcast and telecom broadband markets based in Paris, France. Earlier in his career, Mr. Chase was General Manager of Magnitude Compression Systems at General Instrument, Inc. and Vice President, Systems Engineering & Program Management at Scientific Atlanta. Mr. Chase is a former United States Marine Corps Officer. Mr. Chase has an M.B.A. from Harvard Graduate School of Business Administration and a BS in Business Administration, Magna Cum Laude from East Carolina University. Mr. Chase currently serves as a board member of East Carolina University's BB&T Center for Leadership Development. The Board of Directors has concluded that Mr. Chase should serve as a director because of his broad and significant experience in the technology industry, including as the Chief Executive Officer of several software and hardware technology companies. As our interim Chief Executive Officer, Mr. Chase has first-hand knowledge of our business and provides valuable insight with respect to our operations and strategic opportunities. In addition, he also has experience as a public company board member, and has significant turnaround management experience.

Andrew Harries has been a director since November 2012 and has served as the Chairman of the Board since July 2013. Mr. Harries was a co-founder of Sierra Wireless (NASDAQ: SWIR), a NASDAQ-listed wireless devices and applications vendor, and previously served as Sierra's Senior Vice President of Sales, Marketing and Operations. Mr. Harries also was the co-founder of Zeugma Systems Inc. where he served as the President, CEO and board member from October 2004 until Tellabs Inc. acquired substantially all of Zeugma in November 2010, after which Mr. Harries provided consulting services to Zeugma until December 2011. During his career, Mr. Harries has also held a variety of positions at Motorola Inc., and currently runs his own advisory and consulting practice. He currently serves on the boards of directors of Norsat International, Inc., a publicly held company that provides data, audio and video communications solutions for challenging environments; Science





World British Columbia, a world class interactive science museum; and the Dean's External Advisory Board, Beedie School of Business at Simon Fraser University. Mr. Harries holds a Master of Business Administration, Marketing and Finance from Simon Fraser University. The Board of Directors has concluded that Mr. Harries should serve as a director because of his embedded industry expertise and extensive management and sales and marketing experience. He also has experience as a public company board member.

William D. Savoy has been a director since May 2004. Between 2004 and 2007, Mr. Savoy consulted with The Muckleshoot Indian Tribe on investment-related matters, strategic planning and economic development. Mr. Savoy served as a consultant for Vulcan Inc., an investment entity that manages the personal financial activities of Paul Allen, from September 2003 to December 2005. Vulcan Inc. resulted from the consolidation in 2000 of Vulcan Ventures Inc., a venture capital fund, and Vulcan Northwest. Mr. Savoy served in various capacities at Vulcan Inc. and its predecessors from 1988 to September 2003, most recently as President of the portfolio and asset management division, managing Vulcan's commercial real estate, hedge fund, treasury and other financial activities, and as President of both Vulcan Northwest and Vulcan Ventures. Mr. Savoy served as President and Chief Executive Officer of Layered, Inc., a software company, from June 1989 until its sale in June 1990 and as its Chief Financial Officer from August 1988 to June 1989. He also previously served as a director of Drugstore.com, a publicly traded company, where he was a member of the audit committee and chairman of the compensation committee. Mr. Savoy received a B.S. in computer science, accounting and finance from Atlantic Union College. Mr. Savoy has financial expertise, industry experience with portfolio companies, experience managing product development, and mergers and acquisitions and he has held board positions with other publicly traded companies. He also has indirect experience managing engineering efforts. The Board of Directors has concluded that Mr. Savoy should serve as a director because his experience as a chief executive officer, and in various other executive roles, has provided him with broad leadership and executive experience, which contributes operational knowledge and strategic planning skills, along with knowledge important to our corporate development and our mergers and acquisitions activities.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE ELECTION OF MR. JURGENSEN, MR. KODESH AND MS. VANDERMEULEN TO THE BOARD OF DIRECTORS.**

*Executive Officers*

The names and certain information as of the record date regarding our executive officers are set forth below:

<b>Name (1)</b>	<b>Age</b>	<b>Position</b>
Jerry Chase	53	Interim Chief Executive Officer, Director
Scott C. Mahan	48	Senior Vice President, Operations; Chief Financial Officer; Secretary; and Treasurer
Mike Stipe	50	Senior Vice President, Worldwide Sales and Marketing
Mark Whiteside	50	Senior Vice President, Professional Services

(1) John Traynor stepped down as Senior Vice President, Products in October 2013, as part of the restructuring described in the Current Report on Form 8-K we filed with the SEC on October 15, 2013.

Mr. Chase's biographical details are set out above under the heading "Nominees and Continuing Directors."

Scott C. Mahan, our Senior Vice President, Operations, Chief Financial Officer, Secretary and Treasurer, joined Bsquare in January 2004. From October 2003 to December 2003, Mr. Mahan served as a consultant to Bsquare. From February 2003 to July 2003, Mr. Mahan served as the Interim Chief Financial Officer and Head of Business & Corporate Development at Cranium, Inc., a games manufacturer. From March 2002 to November 2002, Mr. Mahan served as Chief Operating Officer at Xylo, Inc., a company that provided human resource technology and services to

Fortune 1000 companies, and from June 1998 to December 2001 as Chief Financial Officer and Vice President, Administration at Qpass, Inc, a provider of billing services to wireless carriers. Prior to that, Mr. Mahan also held roles at Sequel Technology Corporation, Spry, Inc., Paccar Inc. and Ernst & Young LLP. Mr. Mahan holds a B.S. in management from Tulane University.

Mike T. Stipe has been our Senior Vice President, Worldwide Sales and Marketing since October 2012, where his duties include the direction and management of software sales and licensing, professional services sales, and marketing strategy worldwide. Prior to this role, he was president and co-founder at Arynga. From 2009 to 2012, Mr. Stipe was the Vice President, Sales for Teleca, an embedded software solution provider based in Malmo, Sweden. Mr. Stipe has held a number of other executive management positions in sales and marketing, including Sr. Director Services Sales, Wind River (acquired by Intel), Vice President, Sales, Altium, where he was responsible for the North America subsidiary of the Australian company, Vice President, Sales & Marketing, Effnet, Vice President, Sales, NonStopNet, and District Sales Manager, Motorola. Mr. Stipe holds a degree in Business Administration from the College of Idaho.

Mark D. Whiteside, our Senior Vice President, Professional Services, joined Bsquare in May 2011, where his duties include managing the Company's consulting services resources for design, development, project management and education. Prior to this role, he was a Wireless Services Executive with IBM. Prior to that, from 2004 to 2007, Mr. Whiteside was the Chief Operating Officer at Vallent Inc., a wireless performance management software provider which was purchased by IBM. Mr. Whiteside has held a number of other executive roles in global technology companies, including EMEA Vice President Wireless Services based in London for Marconi PLC and Global Vice President of Services for MSI, a mediation middleware company purchased by Marconi PLC. He was also General Manager of International Business at Holocentric and Director of Customer Services, Asia Pacific based in Singapore for Sequent Computers. Mr. Whiteside holds a Bachelor of Arts in Computer Sciences from the University of California, San Diego.

## **CORPORATE GOVERNANCE**

### **Board of Directors Leadership Structure**

The Board of Directors has adopted a structure whereby the Chairman of the Board is an independent director. We believe that having a Chairman independent of management provides effective leadership for the Board of Directors and helps ensure critical and independent thinking with respect to the Company's strategy and performance. Our Chief Executive Officer has generally also been a member of the Board of Directors, as the sole management representative on the Board of Directors. Mr. Chase is a director as well as our Interim Chief Executive Officer, and we anticipate that the candidate selected as our permanent Chief Executive Officer will also serve on the Board of Directors. We believe this is important to make information and insight about the Company directly available to the directors in their deliberations. Our Board of Directors believes that separating the Chief Executive Officer and Chairman of the Board roles and also having the Chairman of the Board role represented by an independent director is the appropriate leadership structure for our Company at this time and demonstrates our commitment to effective corporate governance.

Our Chairman of the Board is responsible for the effective functioning of our Board of Directors, enhancing its efficacy by guiding Board of Directors processes and presiding at Board of Directors meetings and executive sessions of the independent directors. Our Chairman presides at shareholder meetings and ensures that directors receive appropriate information from our Company to fulfill their responsibilities. Our Chairman also acts as a liaison between our Board of Directors and executive management, promoting clear and open communication between management and the Board of Directors.

### **Board of Directors Role in Risk Oversight**

Our Board of Directors has responsibility for the oversight of risk management. Our Board, either as a whole or through its committees, regularly discusses with management our major risk exposures, their potential impact on our Company and the steps we take to manage them. While our Board is ultimately responsible for risk oversight at our Company, our Board committees assist the Board of Directors in fulfilling its oversight responsibilities in certain areas of risk. In particular, our Audit Committee focuses on financial and accounting risks. Our Governance and Nominating Committee focuses on the management of risks associated with Board organization, membership, structure and corporate governance. Finally, our Compensation Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs and related to succession planning for our executive officers.

### **Board of Directors Independence**

The Board of Directors has determined that, after consideration of all relevant factors, Messrs. Harries, Jurgensen, Kodesh, Savoy and Ms. VanderMeulen, constituting a majority of our Board of Directors, qualify as independent directors as defined under applicable rules of The NASDAQ Stock Market LLC ( Nasdaq ) and that such directors do not have any relationship with the Company that would interfere with the exercise of their independent business judgment.

In connection with his appointment as a director in July 2013, the Board determined that Mr. Chase qualified as an independent director. However, he has since assumed a management role as Interim Chief Executive Officer, and the Board does not view him as meeting the independence criteria while serving in that role. For this reason, Mr. Chase resigned his appointments on our Audit Committee and our Governance and Nominating Committee in connection with his appointment as Interim Chief Executive Officer.

### **Standing Committees and Attendance**

The Board of Directors held a total of eight meetings during 2012. The Board has an Audit Committee, a Compensation Committee and a Governance and Nominating Committee. Information about these committees

and committee meetings is set forth below. From February 2009 until August 2013, the Board had an Investment Committee to assist the Board in exercising its oversight of the Company's cash and investments policies. The Investment Committee met once during 2012, but was subsequently disbanded, the Board having concluded that the Audit Committee could assume the ongoing oversight duties.

#### *Audit Committee*

The Audit Committee comprises Messrs. Jurgensen (Committee Chair), Harries and Savoy. The Board of Directors has determined that, after consideration of all relevant factors, Messrs. Jurgensen, Harries and Savoy qualify as independent directors under applicable SEC and Nasdaq rules. Each member of the Audit Committee is able to read and understand fundamental financial statements, including our consolidated balance sheets, consolidated statements of operations and consolidated statements of cash flows. Further, no member of the Audit Committee has participated in the preparation of our consolidated financial statements, or those of any current subsidiary of the Company, at any time during the past three years. The Board of Directors has designated Mr. Jurgensen as the audit committee financial expert as defined under applicable SEC rules and has determined that Mr. Jurgensen possesses the requisite financial sophistication under applicable Nasdaq rules. The Audit Committee is responsible for overseeing our independent auditors, including their selection, retention and compensation, reviewing and approving the scope of audit and other services by our independent auditors, reviewing the accounting principles, policies, judgments and assumptions used in the preparation of our financial statements and reviewing the results of our audits. The Audit Committee is also responsible for reviewing the adequacy and effectiveness of our internal controls and procedures, including risk management, establishing procedures regarding complaints concerning accounting or auditing matters, reviewing and, if appropriate, approving related-party transactions, and reviewing compliance with our Code of Business Conduct and Ethics. The Audit Committee held four meetings during 2012.

The Audit Committee operates under a written charter setting forth the functions and responsibilities of the committee, which is reviewed annually by the committee and amended by the Board of Directors as is determined to be necessary or desirable. A current copy of the Audit Committee charter is available on our website at [www.bsquare.com](http://www.bsquare.com) on the Management and Governance page found under the Company tab.

#### *Compensation Committee*

The Compensation Committee consists of Messrs. Savoy (Committee Chair), Harries and Jurgensen. The Board of Directors has determined that, after consideration of all relevant factors, Messrs. Savoy, Harries and Jurgensen qualify as independent and non-employee directors under applicable Nasdaq and SEC rules and qualify as outside directors pursuant to the Internal Revenue Code and the regulations promulgated thereunder. The Compensation Committee makes recommendations to the Board of Directors regarding the general compensation policies of the Company as well as the compensation plans and specific compensation levels for its executive officers. The Compensation Committee held two meetings during 2012.

The Compensation Committee has a number of functions and responsibilities as delineated in its written charter, which is reviewed annually by the committee and amended by the Board of Directors as is determined to be necessary or desirable. A current copy of the Compensation Committee charter is available on our website at [www.bsquare.com](http://www.bsquare.com) on the Management and Governance page found under the Company tab.

One of the primary responsibilities of the Compensation Committee is to oversee, and make recommendations to the Board of Directors for its approval of, the compensation programs and performance of our executive officers, which includes the following activities:

Establishing the objectives and philosophy of the executive compensation programs;

Designing and implementing the compensation programs;

Evaluating the performance of executives relative to their attainment of goals under the programs and reporting to the Board of Directors such evaluation information;

Evaluating the Company's succession plan for its Chief Executive Officer;

Calculating and establishing payouts and awards under the programs as well as discretionary payouts and awards;

Reviewing base salary levels and equity ownership of the executives; and

Engaging consultants from time to time, as appropriate, to assist with program design, benchmarking, etc. Additional information regarding the roles and responsibilities of the Compensation Committee, as well as the role that our executive officers serve in recommending compensation, is set forth below under Executive Officer Compensation.

The Compensation Committee also periodically reviews the compensation of the Board of Directors and proposes modifications, as necessary, to the full Board for its consideration.

#### *Governance and Nominating Committee*

The Governance and Nominating Committee currently consists of Ms. VanderMeulen (Committee Chair) and Mr. Kodesh. The Board of Directors has determined that, after consideration of all relevant factors, Ms. VanderMeulen and Mr. Kodesh qualify as independent directors under applicable Nasdaq rules. The Governance and Nominating Committee held two meetings during 2012.

The Governance and Nominating Committee operates under a written charter setting forth the functions and responsibilities of the committee, which is reviewed annually by the committee and amended by the Board of Directors as is determined to be necessary or desirable. A current copy of the Governance and Nominating Committee charter is available on our website at [www.bsquare.com](http://www.bsquare.com) on the Management and Governance page found under the Company tab.

The primary responsibilities of the Governance and Nominating Committee are to:

Develop and recommend to the Board of Directors criteria for selecting qualified director candidates;

Identify individuals qualified to become Board members;

Evaluate and select director nominees for each election of directors;

Consider the committee structure of the Board of Directors and the qualifications, appointment and removal of committee members;

Recommend codes of conduct and codes of ethics applicable to the Company; and



Provide oversight in the evaluation of the Board of Directors and each committee.

No director attended fewer than 75% of the aggregate of the meetings of the Board of Directors and committees thereof, if any, upon which such director served during the period for which he or she has been a director or committee member during 2012.

### **Director Nomination Process**

The Board of Directors has determined that director nomination responsibilities should be overseen by the Governance and Nominating Committee (the Committee). One of the Committee's goals is to assemble a Board that brings to our company a variety of perspectives and skills derived from high quality business and professional experience. Although the Committee and the Board of Directors do not have a formal diversity

policy, the Board of Directors instructed the Committee to consider such factors as it deems appropriate to develop a Board and committees that are diverse in nature and comprised of experienced and seasoned advisors. Factors considered by the Committee include judgment, knowledge, skill, diversity (including factors such as race, gender and experience), integrity, experience with businesses and other organizations of comparable size, including experience in software products and services, business, finance, administration or public service, the relevance of a candidate's experience to the needs of the Company and experience of other Board members, familiarity with national and international business matters, experience with accounting rules and practices, the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members, and the extent to which a candidate would be a desirable addition to the Board of Directors and any committees of the Board of Directors. In addition, directors are expected to be able to exercise their best business judgment when acting on behalf of the Company and its shareholders, act ethically at all times and adhere to the applicable provisions of the Company's Code of Business Conduct and Ethics. Other than consideration of the foregoing and applicable SEC and Nasdaq requirements, unless determined otherwise by the Committee, there are no stated minimum criteria, qualities or skills for director nominees. However, the Committee may also consider such other factors as it may deem are in the best interests of our company and its shareholders. In addition, at least one member of the Board of Directors serving on the Audit Committee should meet the criteria for an audit committee financial expert having the requisite financial sophistication under applicable Nasdaq and SEC rules, and a majority of the members of the Board of Directors should meet the definition of independent director under applicable Nasdaq rules.

The Committee identifies director nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board of Directors with skills and experience that are relevant to the Company's business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board of Directors with that of obtaining a new perspective. The Committee also takes into account an incumbent director's performance as a Board member. If any member of the Board of Directors does not wish to continue in service, if the Committee decides not to re-nominate a member for reelection, if the Board decided to fill a director position that is currently vacant or if the Board of Directors decides to recommend that the size of the Board of Directors be increased, the Committee identifies the desired skills and experience of a new nominee in light of the criteria described above. Current members of the Board of Directors and management are polled for suggestions as to individuals meeting the Committee's criteria. Research may also be performed to identify qualified individuals. Nominees for director are selected by a majority of the members of the Committee, with any current directors who may be nominees themselves abstaining from any vote relating to their own nomination.

It is the policy of the Committee to consider suggestions for persons to be nominated for director that are submitted by shareholders. The Committee will evaluate shareholder suggestions for director nominees in the same manner as it evaluates suggestions for director nominees made by management, then-current directors or other appropriate sources. Shareholders suggesting persons as director nominees should send information about a proposed nominee to the Secretary of the Company at our principal executive offices as referenced above at least 120 days prior to the anniversary of the mailing date of the prior year's proxy statement. This information should be in writing and should include a signed statement by the proposed nominee that he or she is willing to serve as a director of the Company, a description of the proposed nominee's relationship to the shareholder and any information that the shareholder feels will fully inform the Committee about the proposed nominee and his or her qualifications. The Committee may request further information from the proposed nominee and the shareholder making the recommendation. In addition, a shareholder may nominate one or more persons for election as a director at our annual meeting of shareholders if the shareholder complies with the notice, information, consent and other provisions relating to shareholder nominees contained in our Bylaws. Please see the section above titled Deadlines for Receipt of Shareholder Proposals for important information regarding shareholder proposals. To date, we have not engaged third parties to identify, evaluate or assist in identifying potential director candidates, although we may in the future retain a third-party search firm, if appropriate.



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## Code of Ethics

We have adopted a Code of Business Conduct and Ethics in compliance with applicable rules of the SEC that applies to our principal executive officer, our principal financial officer and our principal accounting officer or controller, or persons performing similar functions, as well as to all members of the Board of Directors and all other employees of the Company. A copy of this policy is available on the Management and Governance page on our website at [www.bsquare.com](http://www.bsquare.com) or free of charge upon written request to the attention of the Secretary of the Company, by regular mail at our principal executive offices, email to [investorrelations@bsquare.com](mailto:investorrelations@bsquare.com), or fax at 425-519-5998. We will disclose, on our website, any amendment to, or a waiver from, a provision of our Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any element of the Code of Business Conduct and Ethics enumerated in applicable rules of the SEC. There were no such amendments to, or waivers from, our Code of Business Conduct and Ethics during 2012.

## 2012 Director Compensation

In 2011, the Compensation Committee of the Board of Directors engaged a compensation consultant to benchmark the Board of Directors compensation. As a result, in May 2011 the Compensation Committee recommended, and the Board of Directors approved, changes to the Board of Directors compensation designed to attract and retain qualified non-employee directors to serve on our Board of Directors. This plan includes cash and stock awards for directors for service on the Board of Directors and on committees. The Board amended the director compensation plan in June 2013, as described below.

When joining the board, directors receive a one-time grant of 25,000 stock options, which vest quarterly over two years, and, commencing in June 2013, a one-time grant of restricted stock units. The Chairman of the Board receives a one-time grant of 50,000 stock options when joining the Board (or 25,000 stock options if appointed as Chairman of the Board while already serving as a director), and, commencing in June 2013, a one-time grant of restricted stock units. The number of shares underlying the restricted stock unit awards granted to new directors is determined by dividing \$50,000 by the Company's closing stock price on the date of grant (or \$75,000 in the case of the Chairman of the Board (or \$25,000 if appointed as Chairman of the Board while already serving as a director)) and is prorated based on the date on which such director is appointed. Thereafter, standing directors receive annual grants of restricted stock units, the number of shares underlying which is determined by dividing \$50,000 by the Company's closing stock price on the date of grant (\$75,000 in the case of the Chairman of the Board). The annual restricted stock unit awards are granted on the earlier of (i) the day of the annual meeting of the Company's shareholders or (ii) the last trading day of the Company's second fiscal quarter. The awards vest quarterly over one year. All equity awards cease vesting as of the date a director's service on the Board terminates for any reason; provided that the Board may accelerate the vesting of any outstanding stock award for a director whose service on the Board terminates for any reason other than removal for cause.

The Company also pays annual cash director fees of \$30,000 to non-Chair directors and \$40,000 to the Chairman of the Board, and annual Board Committee fees to directors who serve on the Audit Committee of \$10,000 and \$5,000 to directors who serve on other committees. The Chairs of the Governance and Nominating Committee and the Compensation Committee receive additional annual Board Committee fee compensation of \$3,000. All cash amounts are payable in quarterly increments. Directors are also reimbursed for reasonable expenses incurred in attending Board of Directors and committee meetings. Mr. Crowley, our former President and Chief Executive Officer and former member of our Board of Directors, did not receive additional compensation for services provided as a director, nor shall Mr. Chase for so long as he serves as our Interim Chief Executive Officer.

The table below presents the 2012 compensation of our non-employee directors. The compensation of Mr. Crowley is described in the Summary Compensation Table in the section titled Executive Officer Compensation.



As noted above in the section titled "Nominees and Continuing Directors," effective July 1, 2013 Elwood D. Howse, Jr. and Scot E. Land resigned from the Board of Directors. Also effective July 1, 2013, Jerry Chase and Harel Kodesh were appointed as members of the Board to fill the vacancies created by those resignations.

<b>Name (1)</b>	<b>Fees Earned or Paid in Cash</b>	<b>Stock Awards (1)</b>	<b>Total</b>
Andrew Harries (2)	\$	\$ 39,519	\$ 39,519
Elwood D. Howse, Jr. (3)	\$ 40,000	\$ 50,000	\$ 90,000
Elliott H. Jurgensen, Jr. (4)	\$ 55,000	\$ 74,998	\$ 129,998
Scot E. Land (5)	\$ 45,000	\$ 50,000	\$ 95,000
William D. Savoy (6)	\$ 43,000	\$ 50,000	\$ 93,000
Kendra A. VanderMeulen (7)	\$ 38,000	\$ 50,000	\$ 88,000

- (1) The amounts in this column reflect the aggregate grant-date fair value of stock options and restricted stock unit awards, determined in accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic 718 for stock-based compensation. The amounts included for a particular year reflect only the awards treated as granted in that year. Pursuant to SEC rules, the amounts shown disregard the impact of estimated forfeitures related to service-based vesting conditions. Assumptions used in the calculation of these award amounts are set forth in Note 10 (Shareholders' Equity) to the financial statements included in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on February 22, 2013, as amended by the Form 10-K/A filed with the SEC on April 30, 2013 (as amended, the "2012 10-K").
- (2) Mr. Harries held 25,000 stock options as of December 31, 2012.
- (3) Mr. Howse held 71,875 stock options and 8,417 restricted stock units as of December 31, 2012.
- (4) Mr. Jurgensen held 85,850 stock options and 12,626 restricted stock units as of December 31, 2012.
- (5) Mr. Land held 96,875 stock options and 8,417 restricted stock units as of December 31, 2012.
- (6) Mr. Savoy held 87,500 stock options and 8,417 restricted stock units as of December 31, 2012.
- (7) Ms. VanderMeulen held 74,125 stock options and 8,417 restricted stock units as of December 31, 2012.

## EXECUTIVE OFFICER COMPENSATION

### Summary Compensation Table

The following table sets forth the compensation earned during the past two fiscal years by (i) our chief executive officer during 2012 and (ii) the two most highly compensated executive officers other than the chief executive officer who were serving as executive officers at the end of 2012 and whose total compensation for 2012 exceeded \$100,000 (collectively, the named executive officers ).

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	All Other Compensation (2)	Total
Brian T. Crowley (3)	2012	\$ 295,000	\$	\$ 62,850	\$ 6,915	\$ 364,765
<i>President and Chief Executive Officer</i>	2011	\$ 270,000	\$	\$ 437,691	\$ 13,306	\$ 720,997
Scott C. Mahan	2012	\$ 230,000	\$	\$ 41,900	\$ 8,675	\$ 280,665
	2011	\$ 208,000	\$	\$ 246,919	\$ 10,418	\$ 465,337
<i>Senior Vice President, Operations, Chief Financial Officer, Secretary and Treasurer</i>						
Mark D. Whiteside (4)	2012	\$ 207,000	\$	\$ 167,600	\$ 5,296	\$ 379,896
<i>Senior Vice President, Professional Services</i>						

- (1) The amounts in this column reflect the aggregate grant-date fair value of restricted stock units granted under our Annual Executive Bonus Program ( AEBP ) and other special grants as determined by the Board of Directors. These amounts are determined in accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic 718 for stock-based compensation. The amounts included for a particular year reflect only the awards treated as granted in that year. Pursuant to SEC rules, the amounts shown disregard the impact of estimated forfeitures related to service-based vesting conditions. Assumptions used in the calculation of these award amounts are set forth in Note 10 (Shareholders Equity) to the financial statements included in Part II, Item 8 of our 2012 10-K.
- (2) Represents 401(k) matching employer contributions, premiums paid by the Company under a group life insurance plan, and an allowance for mobile telephone and data service, which includes personal use.
- (3) Mr. Crowley stepped down as President and Chief Executive Officer and as a director in September 2013. He is included in this table because he is a named executive officer for 2012.
- (4) Mr. Whiteside joined the Company in May 2011. His compensation for 2011 is not included because Mr. Whiteside was not a named executive officer that year.

### Employment Agreements with Named Executive Officers

We have agreements with our named executive officers, which include provisions regarding post-termination compensation. We do not have a formal severance policy or plan applicable to our executive officers as a group. Under the agreements with Mr. Mahan and Mr. Whiteside, if either officer is terminated without cause (as defined in the applicable agreement, subject to certain exceptions), they will receive termination payments equal to six months and four months, respectively, of their annual base salary, paid on our normal payroll schedule. In addition, the equity awards held by Mr. Mahan and Mr. Whiteside would continue to vest post-termination over the period during which they receive these termination payments. Mr. Mahan and Mr. Whiteside are entitled to these termination payments

provided they enter into a separation and release agreement acceptable to the Company. No other benefits accrue to the named executive officers under their severance arrangements (such as continuation of medical benefits) under their current employment contracts.

In connection with his termination effective September 30, 2013, Mr. Crowley has entered into a separation and release agreement with us, and he will receive severance payments equal to six months of his base salary paid on our normal payroll schedule. The vesting of his equity awards post-termination will continue to March 31, 2014,



after which he will have until June 30, 2014 to exercise any outstanding stock options. In addition, the Company will subsidize Mr. Crowley's COBRA costs through March 31, 2014 to the same extent that we subsidize other employees with similar benefit elections.

The agreements with our named executive officers govern the termination of the officer by the Company; they do not address termination by an acquiring company of a named executive officer after a change in control of the Company. There are no individual change-in-control agreements in effect with any of our named executive officers. The terms of our Fourth Amended and Restated Stock Plan (the "Stock Plan") do not specifically provide for accelerated vesting of equity awards for participants in the event of a change in control. Instead, the Stock Plan provides that individual equity award agreements *may* provide for accelerated vesting in connection with certain transactions defined in the Stock Plan (including certain change-in-control transactions). No currently outstanding equity award agreement provides for such acceleration of vesting. In addition, the Stock Plan provides that the Board of Directors may elect to accelerate vesting for any Stock Plan participant at such times and in such amounts as the Board of Directors determines. Any change in control agreement with an executive officer, should it be deemed necessary, would require approval by the Compensation Committee and the Board of Directors.

## **Determination of Compensation**

### *Total Compensation*

For purposes of evaluating executive officer total compensation including base salary, discretionary bonus, equity awards and incentive compensation, the Compensation Committee primarily considers two factors:

*Benchmark data:* Historically, the Compensation Committee has engaged a compensation consultant on an annual basis to review and benchmark our executive compensation programs.

*Company and individual-specific factors:* In addition to considering compensation levels of executives at similarly sized regional public companies, the Compensation Committee, in conjunction with the Chief Executive Officer, reviews the Company's financial performance objectives as well as non-financial performance objectives applicable to each executive (other than the Chief Executive Officer). The Company's financial performance objectives are determined through collaboration with the Chief Executive Officer, the Board of Directors and the Compensation Committee. The non-financial performance objectives applicable to each executive officer (other than the Chief Executive Officer) are determined in collaboration with the Chief Executive Officer, the executive officer and the Compensation Committee. The Compensation Committee, without input from the Chief Executive Officer, determines the financial and non-financial performance objectives applicable to the Chief Executive Officer. These objectives and associated awards are governed by the Annual Executive Bonus Program ("AEBP") with respect to executive officers who are not members of the sales team. Those executive officers who are also members of the sales team participate in individual sales compensation plans. The AEBP is described below under "Incentive Plan Compensation."

### *Base Salary and Discretionary Bonus*

The Compensation Committee's goal is to provide a competitive base salary for our executive officers. The Compensation Committee has not established any formal guidelines for purposes of setting base salaries (such as payment at a particular percentile of the benchmark group), but instead considers the benchmark data along with the Company's performance and the individual's performance and experience in determining what represents a competitive salary. The Compensation Committee also considers these factors in its recommendations to the Board of Directors

regarding whether and in what amounts to award discretionary cash bonuses, apart from cash awards that may be provided for under incentive plans.

With respect to 2011, in response to overall economic conditions and a need for the Company to proactively manage expenses, our Chief Executive Officer, in conjunction with the Compensation Committee and the Board of Directors, determined that salaries for the executive officers would not be changed. The Compensation

Committee and the Board of Directors also determined that the Chief Executive Officer's salary would not be changed with respect to 2011 for the same reasons. As such, for 2011 Mr. Crowley's annual base salary remained at \$270,000 and Mr. Mahan's annual base salary remained at \$208,000. Mr. Whiteside joined the Company in May 2011 at an annual base salary of \$200,000.

In 2011, the Compensation Committee engaged a compensation consultant to review and benchmark the Company's executive compensation programs. A nationally recognized, technology-oriented compensation survey, which included both private and public companies whose annual revenue was between \$80 million to \$95 million, was used for purposes of benchmarking. The Compensation Committee, after evaluating benchmark data and the company- and individual-specific factors outlined above, recommended to the Board of Directors that the annual base salaries of certain of the Company's executive officers be increased. The Board of Directors approved this recommendation in February 2012, with the increases effective as of January 1, 2012.

The 2012 annual base salaries of our named executive officers, after giving effect to these increases, were as follows:

<b>Name</b>	<b>Annual Base Salary</b>
Brian T. Crowley	\$ 295,000
Scott C. Mahan	\$ 230,000
Mark D. Whiteside	\$ 207,000

#### *Equity Awards*

Longer-term incentives in the form of grants of stock options, restricted stock, restricted stock units and other forms of equity instruments to executive officers are governed by the Stock Plan and are made both under incentive compensation plans and outside of those plans.

The Compensation Committee recommends grants and awards of stock options and other forms of equity instruments awarded to our executive officers under the Stock Plan. Grants and awards recommended by the Compensation Committee are then submitted to the Board of Directors for approval. Stock options have historically been granted at the time of hire of an executive officer. Further, the Compensation Committee periodically reviews the equity ownership of the executive officers and may recommend to the Board of Directors additional awards of equity instruments under the Stock Plan based on a number of factors, including benchmark data, Company performance and individual performance, the vested status of currently outstanding equity awards, the executive's equity ownership in relation to the other executives and other factors. The Compensation Committee maintains no formal guidelines for these periodic reviews. Stock options are awarded with exercise prices equal to the closing market price per share of our common stock on the grant date.

In February 2012, the Compensation Committee recommended and the Board of Directors approved new grants of restricted stock units to certain executive officers, including the named executive officers, in order to keep a healthy long-term incentive in place as older grants have vested. The awards to our named executive officers were in the amounts of 15,000 restricted stock units to Mr. Crowley, 10,000 restricted stock units to Mr. Mahan and 40,000 restricted stock units to Mr. Whiteside. These grants vest annually in equal installments over four years.

#### *Incentive Plan Compensation*

Our named executive officers also participate in incentive compensation programs as described below. Executive officers of the Company who are not members of the sales team participate in the AEBP.

The objectives of the AEBP are to:

Encourage and reward individual and corporate performance;

Seek alignment of executive officers' compensation with shareholder interests on both a short-term and long-term basis; and

Attract and retain highly-qualified executives.

The AEBP, under which executive officers, other than the Company's Senior Vice President, Worldwide Sales and Marketing, have the potential to earn awards of cash and restricted stock units, is maintained in collaboration among the Compensation Committee, the Board of Directors and the Chief Executive Officer. Payment under the AEBP is contingent on the achievement of an adjusted annual net income target for the Company and the achievement of individual objectives set for the executive. Individual objectives may be related to achievements such as growing revenue streams, developing successful new products, maintaining low involuntary employee turnover and improving infrastructure to enhance business velocity.

The amount of bonus earned under the AEBP is determined by the following formula, the elements of which are described below:

$$\text{Bonus Amount} = \text{Base Salary} * \text{Target Bonus Opportunity} * \text{Company Achievement Multiplier (50\% to 130\%)} * \text{Individual Achievement Multipliers (0\% to 100\%)}$$

**Target Bonus Opportunity.** The Target Bonus Opportunity for each executive officer is set as a percentage of base salary. The philosophy used by the Compensation Committee in setting the Target Bonus Opportunity is similar to that used in setting base salaries for the executive officers, including consideration of the benchmark data described previously, among other things. The 2012 Target Bonus Opportunity percentages were as follows for the named executive officers:

Title	Target Bonus Opportunity
Chief Executive Officer	65%
Chief Financial Officer	50%
Senior Vice President, Professional Services	40%

**Company Achievement Multiplier.** The Compensation Committee, in conjunction with the Chief Executive Officer and Board of Directors, determines the threshold financial measures that the Company must meet in order for executives to earn bonuses under the AEBP. Because reported net income contains equity-based compensation expense, and because the actual amount of compensation expense is variable based on factors largely out of the control of the executive team, the Compensation Committee has decided that net income with equity-based expense added back, or adjusted net income, will be used as the primary measure for achievement in the AEBP. Additionally, because it is not possible to accurately forecast the amount of executive bonuses earned at the start of the year, and because executive bonuses are not included in the Company's annual budget, adjusted net income excludes any executive bonus expense. The Compensation Committee also has discretion to make other adjustments based on particular facts and circumstances that may arise. The Compensation Committee has set three adjusted net income targets:

**Bonus Trigger:** This is the minimum amount of adjusted net income that the Company must earn in order for any AEBP bonuses to be paid. Once adjusted net income reaches this amount, the Company Achievement Multiplier is set at 50%.

*Bonus Target:* This is the target adjusted net income level at which the Company Achievement Multiplier is set at 100%. This number corresponds to the net income number set forth in the 2012 budget that is formally approved by the Board of Directors, with any 2012 equity-based compensation expense estimate added back.

*Bonus Cap:* This is the adjusted net income level at which the Company Achievement Multiplier will cap at 130%.

If the Company does not achieve the Bonus Trigger, then the Company Achievement Multiplier is set at 0%, and no bonuses are paid under the AEBP.

When adjusted net income falls between the Bonus Trigger and the Bonus Target, the Company Achievement Multiplier will be prorated from 0% to 100%. When adjusted net income falls between the Bonus Target and the Bonus Cap, the Company Achievement Multiplier will be prorated from 100% to 130%. If adjusted net income is greater than the Bonus Cap, the Company Achievement Multiplier will remain capped at 130%.

For 2012, the financial targets for the Company Achievement Multiplier were as follows:

Description	Adjusted Net Income		Bonus Percentage
	Minimum	Maximum	
Below Trigger	\$ 0	\$ 4,683,199	0%
Trigger to Target	\$ 4,683,200	\$ 5,853,999	0% to 100% prorated
Target	\$ 5,854,000	\$ 5,854,000	100%
Above Target	\$ 5,854,001	\$ 7,610,200	100% to 130% prorated
	\$ 7,610,200	\$ and above	capped at 130%

**Individual Achievement Multiplier.** Each executive other than the Chief Executive Officer is assigned objectives by the Chief Executive Officer. The Compensation Committee in conjunction with the Board of Directors determines the Chief Executive Officer's objectives. Objectives for executives other than the Chief Executive Officer may be modified by the Chief Executive Officer during the year in order to suit current business conditions. Objectives are meant to provide guidance and incentive for each executive in the day to day operation of a particular business function.

Each objective carries a particular weighting, with the sum of all objective weightings adding up to 100%.

At the end of the year, the Chief Executive Officer reviews each objective with the particular executive, and determines if the objective was achieved (0% or 100%), or in the case of a prorated objective, what percentage of the objective was achieved. The Chief Executive Officer's determination is reviewed by the Compensation Committee. The Compensation Committee reviews the Chief Executive Officer's achievement of objectives.

The Individual Achievement Multiplier is then determined by multiplying the achievement level of each objective by the assigned weighting for that objective. The results for all objectives are then added together to form the Individual Achievement Multiplier. For example, if an executive had four objectives, each weighted at 25%, the Individual Achievement Multiplier would be determined as follows:

$$\text{Individual Achievement Multiplier} = (\text{Objective 1 Achievement \%} * 25\%) + (\text{Objective 2 Achievement \%} * 25\%) + (\text{Objective 3 Achievement \%} * 25\%) + (\text{Objective 4 Achievement \%} * 25\%)$$

As noted above, the objective achievement percentage for pass/fail objectives will be 0% or 100%. For prorated objectives, the objective achievement percentage will be prorated between 0% and 100%, inclusive.

**Payment of Bonuses.** When an executive earns a bonus under the AEBP, the mix of consideration is dependent on the amount of bonus earned. The amount of the bonus which is up to or equal to 50% of the executive's base salary (or prorated base salary if the executive was not with us for the full year) is paid in cash, with the remainder paid in the form of restricted stock units which vest over two years in four equal installments semiannually on the last day of July

and December of the two years following the year as to which the bonus is payable. The total number of restricted stock units in the grant is determined by dividing the non-cash portion of



the bonus by the closing price of our common stock on the date of grant. Generally, the Compensation Committee and Chief Executive Officer will attempt to complete bonus calculations as quickly as possible once the fiscal year ends and our finance team has delivered a stable view of adjusted net income for the year. Once the bonus calculations are complete, they must be presented to and approved by the Board of Directors. If restricted stock units are to be awarded to executives, the grant date will be the date that the AEBP awards are approved by the Board of Directors.

Executives must be employed by us at the end of the measurement year in order to be eligible for a bonus. If an executive leaves the employ of the Company before previously awarded restricted stock units have fully vested, any unvested units will be forfeited.

2012 Bonus Amounts. In 2012, our adjusted net income did not reach the minimum trigger, and therefore no bonuses were achieved.

#### *Incentive Sales Compensation Plan*

Sales executives participate in non-equity incentive compensation plans with provisions tailored to the particular individual. The terms of these plans are determined by agreement with the sales executive each year with respect to a particular year's incentive compensation, but with terms that are subject to change each quarter. There are no minimum or maximum amounts payable; percentage commissions depend entirely on the Company's level of achievement with respect to the particular gross profit measures, while quarterly bonuses are either earned or missed according to whether the particular Company performance quota is met.

#### *Other Compensation and Perquisites*

Executives are eligible to participate in standard benefit plans available to all employees including the Company's 401(k) retirement plan, medical, dental, disability, vacation and sick leave and life and accident insurance. The same terms apply to all employees for these benefits except where the value of the benefit may be greater for executives due to the fact that they are more highly compensated than most other employees (e.g., disability benefits). However, all executive officers receive a phone allowance of \$1,800 per year, as do other employees whose job responsibility requires them to be on call. The individuals receiving the allowance are not reimbursed for normal cell phone usage. We provide no pension or deferred compensation benefits to our executive officers. We do not currently have in place any tax gross-up arrangements with our executives.

**Outstanding Equity Awards at Fiscal Year End**

The following table presents the outstanding equity awards held by the named executive officers as of December 31, 2012:

Name	Grant Date	Option Awards Number of Securities Underlying Unexercised Options			Option Exercise Price (\$) (1)	Option Expiration Date (2)	Stock Awards (4)	
		Exercisable (#)	Unexercisable (#)	Have Not Vested (#)			Market Value of Shares or Units of Stock That Have Not Vested (\$ (5))	
Brian T. Crowley	07/24/2003	75,000		4.00	07/24/2013			
	09/21/2004	125,000		2.32	09/21/2014			
	03/23/2007	50,000		4.34	03/23/2017			
	03/20/2008	45,000		3.80	03/20/2018			
	06/30/2011					31,250	91,638	
	02/13/2012					12,187	35,737	
Scott C. Mahan	01/07/2004	37,500		6.47	01/07/2014			
	09/21/2004	62,500		2.32	09/21/2014			
	03/23/2007	35,000		4.34	03/23/2017			
	03/20/2008	25,000		3.80	03/20/2018			
	06/30/2011					18,750	54,938	
	02/13/2012					8,125	23,826	
Mark D. Whiteside	05/09/2011	12,500	37,500	6.17	05/09/2021(3)			
	02/13/2012					32,500	95,303	

- (1) The option exercise price is the closing price of our common stock on the grant date.
- (2) All options outstanding expire ten years from the grant date.
- (3) These options vest annually over four years from the grant date.
- (4) The awards granted on June 30, 2011 are restricted stock units granted by the Board of Directors to compensate certain senior executives for performing their services at below market rates for the preceding years. These awards vest quarterly in equal installments over four years. The awards granted on February 13, 2012 are described above under Determination of Compensation Equity Awards. These awards vest annually in equal installments over four years.
- (5) Based on the closing price of our common stock of \$2.9324 on December 31, 2012.

## Employee Benefit Plans

### *Equity Compensation Plan Information*

The following table presents certain information regarding our common stock that may be issued upon the exercise of options and vesting of restricted stock units granted to employees, consultants or directors as of December 31, 2012:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,578,931(1)	\$ 3.59	1,104,349(2)
Equity compensation plans not approved by security holders	197,200	\$ 3.32	52,800(3)

- (1) Amount includes 236,513 restricted stock units granted and unvested as of December 31, 2012.
- (2) The Stock Plan does not provide for any automatic annual increase in the number of shares reserved for issuance thereunder.
- (3) Indicates shares of our common stock reserved for issuance under the 2011 Inducement Award Plan ( Inducement Plan ), which we established in connection with our acquisition of MPC Data Limited in 2011. There were 250,000 shares allocated for award under the Inducement Plan at the time it was adopted. The number of shares available for issuance may be modified by our Board of Directors, subject to SEC and NASDAQ limitations. There were options to purchase 211,450 shares granted under the Inducement Plan during 2012 (some of which had terminated as of December 31, 2012, with the underlying common stock returned to the pool as available for issuance).

### *Fourth Amended and Restated Stock Plan*

We have granted options to purchase common stock to our officers, directors, employees and consultants under the Stock Plan. The Stock Plan also enables us to grant restricted stock, restricted stock units and certain other equity-based compensation to our officers, directors, employees and consultants. We awarded restricted stock units to our directors in 2011 and 2012. We also awarded restricted stock units to certain of our officers and other employees in 2011 and 2012.

### *401(k) Plan*

We maintain a tax-qualified 401(k) employee savings and retirement plan for eligible U.S. employees. Eligible employees may elect to defer a percentage of their eligible compensation in the 401(k) plan, subject to the statutorily prescribed annual limit. We may make matching contributions on behalf of all participants in the 401(k) plan in the amount equal to one-half of the first 6% of an employee's contributions. Matching contributions are subject to a vesting schedule; all other contributions are fully vested at all times. We intend the 401(k) plan to qualify under Sections 401(k) and 501 of the Internal Revenue Code of 1986, as amended, so that contributions by employees or the

Company to the 401(k) plan and income earned, if any, on plan contributions are not taxable to employees until withdrawn from the 401(k) plan (except as regards Roth contributions), and so that we will be able to deduct our contributions when made. The trustee of the 401(k) plan, at the direction of each participant, invests the assets of the 401(k) plan in any of a number of investment options.

## STOCK OWNERSHIP

### Security Ownership of Principal Shareholders, Directors and Management

The following table sets forth certain information regarding the beneficial ownership of our common stock as of October 1, 2013 by:

each person who is known by us to own beneficially more than five percent of the outstanding shares of common stock;

each director of the Company;

each of the named executive officers; and

all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. The number of shares listed below under the heading "Total Common Stock Equivalents" is the aggregate beneficial ownership for each shareholder and includes:

common stock beneficially owned;

restricted stock awards;

currently vested options; and

stock options and restricted stock units that are not currently vested but will become vested within 60 days after October 1, 2013.

Of this total amount, the number of shares of common stock underlying options that are currently vested, and stock options and restricted stock units that are not currently vested but will become vested within 60 days after October 1, 2013, are deemed outstanding for the shareholder (the "Deemed Outstanding Shares") and are also separately listed below under the heading "Number of Shares Underlying Options and RSUs." For purposes of calculating the number of shares beneficially owned by a shareholder, director or executive officer and resulting percentage ownership, the Deemed Outstanding Shares are not treated as outstanding for the purpose of computing the percentage ownership of common stock outstanding of any other person.

This table is based on information supplied by officers, directors, principal shareholders and filings made with the SEC. Percentage ownership is based on 11,136,132 shares of common stock outstanding as of October 1, 2013.

Unless otherwise noted below, the address for each shareholder listed below is: c/o BSQUARE Corporation, 110 110th Avenue NE, Suite 200, Bellevue, Washington 98004. Unless otherwise noted, each of the shareholders listed below has sole investment and voting power with respect to the common stock indicated, except to the extent shared by spouses under applicable law.

Name and Address of Beneficial Owner	Total Common Stock Equivalents	Number of Shares Underlying Options and RSUs	Percent of Common Stock Equivalents
<b>5% Owners:</b>			
Palogic Value Management, L.P. (1) 1700 Pacific Avenue  Suite 4535  Dallas, TX 75201	686,909		6.2%
Renaissance Technologies LLC (2) 800 Third Ave, 33 <sup>rd</sup> Floor  New York, NY 10022	627,975		5.6%
<b>Directors and Executive Officers:</b>			
Jerry Chase	33,046	29,546	*
Andrew Harries	87,474	56,819	*
Elliott H. Jurgensen, Jr.	194,824	60,850	1.7%
Harel Kodesh	29,546	29,546	*
William D. Savoy	166,298	92,046	1.5%
Kendra A. VanderMeulen	131,923	78,671	1.2%
Brian T. Crowley (3)	331,137	223,125	3.0%
Scott C. Mahan	229,062	162,500	2.1%
Mark D. Whiteside	66,351	52,500	*
All executive officers and directors as a group (4)	1,077,028	670,149	9.7%

\* Less than one percent.

- (1) The indicated ownership is based solely on a Schedule 13G/A filed with the SEC on January 23, 2013 by the reporting person and may have changed since the date of its filing.
- (2) The indicated ownership is based solely on a Schedule 13G/A filed with the SEC on February 13, 2013 by the reporting person and may have changed since the date of its filing.
- (3) As noted above, Mr. Crowley stepped down as a director and as President and Chief Executive Officer in September 2013. He is included in this table because he is a named executive officer for 2012.
- (4) Includes two additional executive officers in addition to Messrs. Chase, Mahan and Whiteside.

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

Section 16(a) of the Exchange Act requires the Company's officers and directors and persons who own more than ten percent of a registered class of the Company's equity securities to file with the SEC reports of ownership on Form 3 and changes in ownership on Form 4 and Form 5. Officers, directors and greater-than-ten-percent shareholders are required by SEC regulations to furnish to the Company copies of all Section 16(a) forms they file. Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons, the Company believes that during the year ended December 31, 2012, its officers and directors and persons who own more than ten percent of a registered class of the Company's equity securities complied with all applicable Section 16(a) filing requirements.

Biographical details of each officer are set forth above under the heading Executive Officers.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

There were no transactions since January 1, 2011, nor are there any proposed transactions as of the date of this proxy statement, as to which the amount involved exceeds the lesser of \$120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years and in which any related person has or will have a direct or indirect material interest, other than equity and other compensation, termination and other arrangements which are described above under 2012 Director Compensation and Executive Officer Compensation.



## PROPOSAL NO. 2

### ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, requires that we provide our shareholders with the opportunity to vote to approve, on an advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the SEC.

This advisory vote, commonly referred to as a "say-on-pay" advisory vote, is not binding on the Company, our Board of Directors or our Compensation Committee. Moreover, the vote on this resolution is not intended to address any specific element of compensation, but rather relates to the overall compensation of our named executive officers, as disclosed in this proxy statement in accordance with the compensation disclosure rules of the SEC. However, while this vote is advisory and not binding on us, we will consider your views when determining executive compensation in the future, including seeking to determine the causes of any significant negative voting results to better understand issues and concerns.

Executive compensation is an important matter for us and for our shareholders. The core of our executive compensation philosophy and practice continues to be pay for performance. As discussed in the "Executive Officer Compensation" section above, our executive compensation programs are based on practices that require achievement of challenging goals—goals that will drive us to achieve profitable revenue growth and market share gains, while expanding the global market opportunity for our products, technology and services portfolio, and ultimately leading to long-term shareholder value. We believe our compensation programs are strongly aligned with the long-term interests of our shareholders, and have been and will continue to be effective in incenting the achievement and performance of our executive officers. Compensation of our executive officers is designed to enable us to attract and retain talented and experienced senior executives to lead us successfully in a competitive environment.

Our named executive officers and the compensation of the named executive officers is described in the "Executive Officer Compensation" section of this proxy statement, including our compensation philosophy and objectives and the fiscal 2012 compensation of the named executive officers.

We are asking shareholders to vote on the following resolution:

**Resolved, that the shareholders approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in the proxy statement for the 2013 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the SEC.**

#### Vote Required

Approval on an advisory basis of the compensation of our named executive officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the SEC requires that the votes cast in favor of the proposal exceed the votes cast against the proposal.

As indicated above, the shareholder vote on this resolution will not be binding on us, the Compensation Committee or the Board of Directors, and will not be construed as overruling any decision by us, the Compensation Committee or the Board. The vote will not be construed to create or imply any change to our fiduciary duties or those of the Compensation Committee or the Board, or to create or imply any additional fiduciary duties for us, the Compensation Committee or the Board.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL NO. 2.**



**PROPOSAL NO. 3**

**ADVISORY VOTE ON THE FREQUENCY OF  
FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION**

As discussed above, the Dodd-Frank Act and regulations promulgated thereunder require the Company to conduct a separate shareholder vote to approve compensation of named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC. The Dodd-Frank Act further provides that this shareholder vote shall occur every one, two or three years. Shareholders are entitled to cast an advisory vote to reflect the desired frequency of such vote as being every one, two or three years.

Accordingly, we are asking our shareholders to provide input on the frequency of future shareholder advisory votes on executive compensation. In particular, we are asking whether the advisory vote should occur every year, every two years or every three years. You may cast your vote on the preferred voting frequency by choosing the option of one year, two years, or three years when voting in response to this proposal. You may also abstain from voting.

We understand that our shareholders may have different views as to what is the best approach for us with respect to the frequency of future advisory votes on executive compensation. After considering a variety of factors, the Board of Directors recommends that you support a frequency of one year for future advisory votes on executive compensation. We believe that holding an advisory vote every year will allow shareholders to provide us with direct and timely input on the compensation of our executive officers. This approach is consistent with our commitment to direct engagement with shareholders on executive compensation and other matters. We believe the advisory vote will be another avenue for shareholders to express their views on executive compensation to the Board, our management and Compensation Committee.

**Vote Required**

The option of one year, two years or three years that receives the highest number of votes cast by shareholders will be the frequency for the advisory vote on executive compensation that has been selected by shareholders. As indicated above, the shareholder vote on this matter is advisory and will not be binding on us, the Compensation Committee or the Board of Directors. However, we value your opinion and will consider the voting results in making a determination concerning the frequency of future executive compensation votes.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR ONE YEAR ON PROPOSAL NO. 3**

## **PROPOSAL NO. 4**

### **RATIFY APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The independent registered public accounting firm of Moss Adams LLP ( Moss Adams ) has acted as the Company s auditor since May 2006 and has audited the Company s financial statements for the years ended December 31, 2012 and 2011. Moss Adams is responsible for performing an independent audit of our consolidated financial statements in accordance with auditing standards generally accepted in the United States and issuing a report on its audit. A representative of Moss Adams is expected to be present at the Annual Meeting, where he or she will have the opportunity to make a statement and to respond to appropriate questions.

The Audit Committee s Charter provides that it shall have the sole authority and responsibility to select, evaluate and, if necessary, replace the Company s independent registered public accounting firm. The Audit Committee has selected Moss Adams as the Company s independent registered public accounting firm for the year ending December 31, 2013.

The Audit Committee pre-approves all audit and non-audit services performed by the Company s auditor and the fees to be paid in connection with such services in order to assure that the provision of such services does not impair the auditor s independence. Unless the Audit Committee provides general pre-approval of a service to be provided by the auditor and the related fees, the service and fees must receive specific pre-approval from the Audit Committee.

#### **Audit Fees**

Moss Adams billed the Company for audit fees of \$234,898 and \$231,678 for the years ended December 31, 2012 and 2011, respectively. These audit fees related to professional services rendered in connection with the audit of the Company s annual consolidated financial statements, the reviews of the consolidated financial statements included in each of the Company s quarterly reports on Form 10-Q and accounting services that relate to the audited consolidated financial statements and are necessary to comply with generally accepted auditing standards.

#### **Audit-Related Fees**

There were no fees billed for fiscal years 2012 or 2011 for assurance and related services by Moss Adams that were reasonably related to the performance of its audit of our financial statements and not reported under the caption Audit Fees.

#### **Tax Fees**

There were no fees billed for fiscal years 2012 or 2011 for tax compliance, tax advice or tax planning services rendered to the Company by Moss Adams.

#### **All Other Fees**

Moss Adams billed the Company \$500 for fees related to acquisition accounting consultation and evaluation of the valuation report of the acquisition target during the year ended December 31, 2011. Moss Adams billed the company \$5,000 for an audit of certain general and administrative related expenses during the years ended December 31, 2012 and 2011 related to an international tax credit.

#### **Audit Committee Report**

In connection with the Company s financial statements for the fiscal year ended December 31, 2012, the Audit Committee has:

Reviewed and discussed the audited financial statements with management;

Discussed with the Company's independent registered public accounting firm, Moss Adams LLP, the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T; and

Received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the Audit Committee concerning independence and discussed with the independent registered public accounting firm the independent registered public accounting firm's independence.

Based upon these reviews and discussions, the Audit Committee as then constituted approved the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission.

Submitted by the Audit Committee:

Elliott H. Jurgensen, Jr., Chair

Andrew Harries

William D. Savoy

**Vote Required**

The ratification of the appointment of Moss Adams LLP as our independent registered public accounting firm requires that the votes cast in favor of the proposal exceed the votes cast against the proposal.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR RATIFICATION OF THE APPOINTMENT OF MOSS ADAMS LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2013.**

**PROPOSAL NO. 5**

**AMENDMENT TO AMENDED AND RESTATED ARTICLES OF INCORPORATION**

**TO DECLASSIFY OUR BOARD OF DIRECTORS AND**

**PROVIDE FOR ANNUAL ELECTION OF DIRECTORS**

The Board of Directors has unanimously adopted and is submitting for shareholder approval an amendment (the Amendment ) to the Company's Amended and Restated Articles of Incorporation (the Articles ) that would declassify the Company's Board of Directors, so that all directors stand for election annually. If the Amendment is approved by the shareholders at the Annual Meeting, the Board will amend the Articles to include the Amendment.

Currently, the Articles provide that our Board of Directors is divided into three classes, with each class being elected every three years. In making a determination whether to adopt the Amendment, the Board took into consideration arguments in favor of and against continuation of the classified Board and determined that it is in the Company's best interests to declassify the Board. In its review, the Board considered the potential advantages of declassification, including the ability of shareholders to evaluate directors annually, and the Board recognizes the growing sentiment among shareholders and the investment community in favor of annual elections. After carefully weighing all of these considerations, the Board determined that it is appropriate to propose the Amendment.

If the Amendment is approved by the shareholders at the Annual Meeting, the declassified board structure will be phased in over a three-year period. Directors elected to three-year terms prior to the effectiveness of the Amendment (including directors elected at this Annual Meeting) will complete those terms, and, prior to the 2016 Annual Meeting, any director elected to fill a vacancy resulting from the death, resignation or removal of an existing director will hold office for the same remaining term as that of his or her predecessor. Beginning with the 2016 Annual Meeting, all directors will stand for election annually.

More specifically:

Class I directors to be elected at this Annual Meeting will serve their full three-year terms, which expire at the 2016 Annual Meeting. Beginning with the 2016 Annual Meeting, Class I directors will stand for election on an annual basis, for one-year terms.

Class II directors will serve the remainder of their elected terms, which expire at the 2014 Annual Meeting. Beginning with the 2014 Annual Meeting, Class II directors will stand for election on an annual basis, for one-year terms.

Class III directors will serve the remainder of their elected terms, which expire at the 2015 Annual Meeting. Beginning with the 2015 Annual Meeting, Class III directors will stand for election on an annual basis, for one-year terms.

The full text of the proposed Amendment is attached as Appendix A to this proxy statement, with deletions indicated by strikeouts and additions indicated by underlining.

If the Amendment is approved by the shareholders at the Annual Meeting, the changes to our Articles of Incorporation will become legally effective upon the filing of a certificate of amendment with the Washington Secretary of State,

which we intend to do shortly after the Annual Meeting. If shareholders do not vote to approve the proposed Amendment, the Board will remain classified and the directors will continue to be elected to serve three-year terms, subject to their earlier death, resignation or removal.

**Vote Required**

Approval of the proposal to amend our Amended and Restated Articles of Incorporation to declassify our Board of Directors requires votes cast in favor of the proposal by holders of a majority of our common stock outstanding as of the record date.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR  
AMENDMENT OF THE AMENDED AND RESTATED ARTICLES OF INCORPORATION  
TO DECLASSIFY OUR BOARD OF DIRECTORS AND PROVIDE FOR ANNUAL ELECTION OF  
DIRECTORS.**



## OTHER MATTERS

### **Shareholder Communications with the Board of Directors and Board Attendance at Annual Shareholder Meetings**

Our shareholders may, at any time, communicate in writing with any member or group of members of the Board of Directors by sending such written communication to the attention of the Secretary of the Company by regular mail to our principal executive offices, email to [investorrelations@bsquare.com](mailto:investorrelations@bsquare.com) or facsimile at 425-519-5998. Copies of written communications received by the Secretary of the Company will be provided to the relevant director(s) unless such communications are considered, in the reasonable judgment of the Secretary of the Company, to be improper for submission to the intended recipient(s). Examples of shareholder communications that would be considered improper for submission include, without limitation, customer complaints, solicitations, communications that do not relate directly or indirectly to the Company or our business, or communications that relate to improper or irrelevant topics.

The Chairperson of the Board of Directors is expected to make all reasonable effort to attend the Company's annual shareholder meeting in person. If the Chairperson is unable to attend an annual shareholder meeting for any reason, at least one other member of the Board of Directors is expected to attend in person. Other members of the Board of Directors are expected to attend the Company's annual shareholder meeting in person if reasonably possible. Messrs. Crowley, Howse, Jurgensen, Land and Savoy attended the 2012 Annual Meeting of Shareholders.

### **Transaction of Other Business**

The Board of Directors of the Company knows of no other matters to be submitted at the Annual Meeting. If any other business is properly brought before the Annual Meeting, proxies will be voted in respect thereof as the proxy holders deem advisable.

### **Annual Report to Shareholders and Form 10-K**

Our Annual Report to Shareholders for the year ended December 31, 2012 (which is not a part of our proxy solicitation materials) is being mailed to our shareholders with this proxy statement. A copy of our Annual Report on Form 10-K for the year ended December 31, 2012, without exhibits, is included with the Annual Report to Shareholders.

By Order of the Board of Directors

Scott C. Mahan

Senior Vice President, Operations,

Chief Financial Officer, Secretary and Treasurer

Bellevue, Washington

November 1, 2013



**APPENDIX A**

**ARTICLES OF AMENDMENT**

**OF**

**BSQUARE CORPORATION**

Pursuant to RCW 23B.10.060, the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation:

FIRST: The name of the corporation is BSQUARE CORPORATION (the Corporation ).

SECOND: The Articles of Incorporation are hereby amended by deleting Article III in its entirety and replacing it with the new Article III as follows:

**ARTICLE III**

**DIRECTORS**

The Board of Directors shall be set at seven. Following the date on which these Articles of Amendment to the Articles of Incorporation are effective, the Board of Directors shall not be classified and (i) any Director elected by the shareholders at or after the annual meeting of shareholders to be held in 2014 shall hold office until the next annual meeting of shareholders and until such Director's successor is duly elected and qualified or until such Director's death, resignation or removal; and (ii) any Director elected prior to the annual meeting of shareholders to be held in 2014 whose term does not expire at such annual meeting of shareholders to be held in 2014 shall hold office for the remainder of the term for which such Director was elected and until such Director's successor is duly elected and qualified or until such Director's death, resignation or removal; provided, however, that neither the foregoing sentence nor any decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director. At the first election of directors after the Corporation is a Public Company, as defined below, the Board of Directors shall be divided into three (3) classes, as determined by the Board of Directors, with said classes to be as equal in number as may be possible, which classes shall be elected for the terms set forth below:

<u>Class</u>	<u>Term</u>
<del>Class 1</del>	<del>1 Year</del>
<del>Class 2</del>	<del>2 Years</del>
<del>Class 3</del>	<del>3 Years</del>

~~Thereafter, each Director's term shall be three (3) years, and each Director shall serve for the term he or she was elected and thereafter until his or her successor is elected and qualified (or the number of directors is reduced), or until his or her death, resignation or removal from office. Directors need not be shareholders of the Corporation or residents of the State of Washington. Written ballots are not required in the election of Directors. For purposes of these Articles of Incorporation, the Corporation shall be a Public Company at such time and for so long as it has a class of equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or any successor statute (the Exchange Act ), or is otherwise subject to the reporting requirements of Section 15(d) of the Exchange Act.~~

Newly created directorships resulting from any increase in the number of Directors or any vacancies on the Board of Directors resulting from death, resignation, removal or other cause shall be filled by the affirmative vote of a majority of the remaining Directors then in office, even though less than a quorum of the Board of Directors. Any Director

electd in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of ~~Directors~~ in which the new directorship was created or in which the ~~new directorship was created or in which the~~ vacancy occurred and thereafter until such Director's successor shall have been elected and qualified (or the number of directors is reduced). ~~No decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director.~~

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THIRD: The foregoing amendment does not provide for an exchange, reclassification, or cancellation of issued shares.

FOURTH: The foregoing amendment was adopted by the Board of Directors of the Corporation on \_\_\_\_\_, 2013 and by the shareholders of the Corporation on \_\_\_\_\_, 2013 in accordance with RCW 23B.10.030 and RCW 23B.10.040.

\* \* \* \* \*

Dated: \_\_\_\_\_, 2013.

BSQUARE CORPORATION

a Washington corporation

By:

Its:

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