

BSQUARE CORP /WA
Form DEF 14A
April 30, 2015

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.

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BSQUARE CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON JUNE 16, 2015

TO THE SHAREHOLDERS:

Notice is hereby given that the 2015 Annual Meeting of Shareholders of BSQUARE Corporation, a Washington corporation (the "Company"), will be held on Tuesday, June 16, 2015 at 10:00 a.m., local time, at our offices at 110 110th Avenue NE, Suite 300, Bellevue, Washington 98004, for the following purposes:

1. To elect Jerry D. Chase and William D. Savoy as Class III 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 approve an amendment to the Company's Fourth Amended and Restated Stock Plan;
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, 2015; and
5. 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 April 17, 2015 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 April 17, 2015 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

Martin L. Heimbigner

Chief Financial Officer, Secretary and Treasurer

Bellevue, Washington

May 4, 2015

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on June 16, 2015: The proxy statement and annual report to shareholders are available at www.bsquare.com/proxy.

BSQUARE CORPORATION

PROXY STATEMENT

FOR THE 2015 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 2015 Annual Meeting of Shareholders (the "Annual Meeting") to be held on Tuesday, June 16, 2015 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 our principal executive offices at 110 110th Avenue NE, Suite 300, Bellevue, Washington 98004. Our telephone number at our 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 May 4, 2015 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 April 17, 2015 (the "record date") are entitled to receive notice of and to vote at the Annual Meeting. Our only outstanding voting securities are shares of common stock, no par value. As of the record date, 11,818,368 shares of our common stock were issued and outstanding, held by 122 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 our Secretary, 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 June 15, 2015) 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 us. 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 administrative 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, an inspector of elections 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.

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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) and the amendment to the Company’s Fourth Amended and Restated Stock Plan (Proposal No. 3) 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 two nominees for election to the Board of Directors who receive 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. Shareholders are not entitled to cumulate votes in the election of directors.
- With regard to Proposals Nos. 2, 3 and 4, approval of each of the proposals requires that the votes cast in favor of the proposal exceed the votes cast against it.

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 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 Proposal No. 3, to approve the amendment to the Company’s Fourth Amended and Restated Stock Plan; and

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

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 2016 annual meeting of shareholders in June 2016, 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 2016, we must receive the proposal at our principal executive offices, addressed to our Secretary, no later than January 5, 2016. Submitting a shareholder proposal does not guarantee that it will be included in our proxy statement and form of proxy.

In addition, a shareholder proposal that is not intended for inclusion in our proxy statement and form of proxy under Rule 14a-8 (including director nominations) shall be considered “timely” within the provisions of our Bylaws and may be brought before the 2016 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 our Secretary at our principal executive offices, no later than March 18, 2016. A copy of the full text of our Bylaws may be obtained by writing to our Secretary at our principal executive offices.

We strongly encourage any shareholder interested in submitting a proposal to contact our Secretary 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 our proxy materials, should be in writing and sent to our principal executive offices, located at: BSQUARE Corporation, 110 110th Avenue NE, Suite 300, 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. Two seats are currently vacant as a result of two previously disclosed director resignations. The Governance and Nominating Committee and the Board of Directors have decided to leave the open director positions vacant at this time until qualified candidates have been identified.

The Board of Directors is currently divided into three classes, with each class having a three-year term. 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 the director nominees and by each of the incumbent directors whose terms will continue following the Annual Meeting. There are no family relationships among any of our directors or officers.

Nominees for Directors

Two Class III directors are to be elected at the Annual Meeting for three-year terms ending in 2018. The Governance and Nominating Committee of the Board of Directors has nominated Jerry D. Chase and William D. Savoy for election as Class III directors. Mr. Chase has been a director since July 2013 and is our President and Chief Executive Officer. Mr. Savoy has been a director since May 2004.

Unless otherwise instructed, the proxy holders will vote the proxies received by them for the election of Jerry D. Chase and William D. Savoy to the Board of Directors. Each has indicated that he will serve if elected. We do not anticipate that either 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 two nominees, proxies cannot be voted for more than two persons.

Vote Required for Election of Directors

If a quorum is present, the two 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 the record date about the nominees and each director continuing in office after the Annual Meeting are set forth below. As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission (“SEC”) on February 19, 2015 (the “2014 10-K”), Harel Kodesh resigned from the Board of Directors effective February 17, 2015. There were no disagreements as contemplated by Item 5.02(a) of Form 8-K.

| Name of Director Nominees | Age | Position | Director Since | Term Expires |
|-----------------------------|-----|---|----------------|------------------|
| Jerry D. Chase | 55 | Director; President and Chief Executive Officer | 2013 | 2015 (Class III) |
| William D. Savoy | 50 | Director | 2004 | 2015 (Class III) |
| Name of Continuing Director | Age | Position | Director Since | Term Expires |
| Andrew S.G. Harries | 53 | Chairman of the Board | 2012 | 2017 (Class II) |
| Elliott H. Jurgensen, Jr | 70 | Director | 2003 | 2016 (Class I) |
| Kendra A. VanderMeulen | 63 | Director | 2005 | 2016 (Class I) |

Jerry D. Chase has been a director since July 2013. He served as our Interim Chief Executive Officer from September 2013 to February 2014, and has been our President and Chief Executive Officer since February 2014. 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 B.S. 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 President and 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.

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. 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 experience. He has also held board positions with other publicly traded companies, including Drugstore.com from 1999 through its acquisition in 2011. 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 any mergers and acquisitions activities.

Andrew S.G. 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 Internet of Things systems 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 consulting practice. He currently chairs the boards of directors of Mojio Inc., an automobile open applications platform company, and Contractually, an online contracts management company. He also serves on the boards and is the immediate past-chair of Simon Fraser University's Beedie School of Business Dean's External Advisory Board and of Science World British Columbia. 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 technology

industry expertise and extensive management and sales and marketing experience. He also has experience as a public company board member.

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 and analytics 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.

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.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE ELECTION OF MR. CHASE AND MR. SAVOY TO THE BOARD OF DIRECTORS.

Executive Officers

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

| Name | Age | Position |
|----------------------|-----|--|
| Jerry D. Chase | 55 | President and Chief Executive Officer, Director |
| Scott B. Caldwell | 47 | Vice President, Worldwide OEM Sales |
| Martin L. Heimbigner | 56 | Chief Financial Officer, Secretary and Treasurer |
| Mark D. Whiteside | 52 | Vice President, Solutions |

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

Scott D. Caldwell joined BSQUARE in 2005 and was promoted to Vice President, Worldwide OEM Sales in 2010. In this role, Mr. Caldwell has responsibility for global sales of our third-party software licensing business which includes Microsoft, Adobe and McAfee products to vertical market OEMs. Prior to joining BSQUARE, Mr. Caldwell led the very first international sales expansion at Sierra Wireless, where he established wireless operator, OEM, and distribution partnerships in South America, Europe and Asia for that company's wireless modems. Other roles included Director of Business Development for Action Engine, where Mr. Caldwell established wireless operator and handset OEM relationships. Mr. Caldwell holds a Bachelor of Business Administration from Simon Fraser University in Burnaby, British Columbia.

Martin L. Heimbigner joined BSQUARE as Chief Financial Officer in November 2014 and was appointed as Secretary and Treasurer in March 2015. His background includes significant financial leadership experience with

software and professional service businesses in the greater Seattle area spanning public and emerging technology companies. Prior to joining BSQUARE, Mr. Heimbigner was the Managing Director at Pacific CFO Group, LLC from December 2012 to October 2014, where he was both an advisor and a member of a senior executive team of client companies to drive top and bottom-line growth, operational effectiveness, internal capability and business strategy. Prior to that Mr. Heimbigner served as a partner at Tatum, LLC, a financial consulting firm, since 2003, and he has also held other senior partner or financial leadership positions at companies including City Bank (NASDAQ:CTBK), Demand Media (NYSE:DMD), Intelligent Results (acquired by First Data, NYSE:FSD), Airbiquity Inc., Washington Energy Company (NYSE:WECO), and KPMG. Mr. Heimbigner holds an Executive MBA from the University of Washington, a Bachelor of Arts, Business Administration and Bachelor of Arts, Accounting from Washington State University. He is a Certified Public Accountant in Washington State.

Mark D. Whiteside, our Vice President, Solution Sales and Services, joined BSQUARE in May 2011, where his duties include managing our 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 under which 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 our strategy and performance. In addition, the Board believes this governance structure promotes balance between the Board's independent authority to oversee our business and the Chief Executive Officer and his management team who manage the business on a day-to-day basis. Moreover, the current separation of the Chairman and Chief Executive Officer roles allows the Chief Executive Officer to focus his time and energy on operating and managing BSQUARE and leverage the experience and perspectives of the Chairman. 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 President and Chief Executive Officer. We believe it is important to make information and insight about us 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 us 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 management 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 us and the steps we take to manage them. While our Board is ultimately responsible for risk oversight at BSQUARE, 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, accounting and investment 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, after consideration of all relevant factors, that Messrs. Harries, Jurgensen and Savoy and Ms. VanderMeulen (and previously determined with respect to Mr. Kodesh), 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 us that would interfere with the exercise of their independent business judgment.

Standing Committees and Attendance

The Board of Directors held a total of 8 meetings during 2014. 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.

Audit Committee

The Audit Committee is currently comprised of 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 BSQUARE, 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 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, reviewing compliance with our Code of Business Conduct and Ethics, and reviewing our investment policy and compliance therewith. The Audit Committee held four meetings during 2014.

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 appropriate. A current copy of the Audit Committee charter is available on our website at www.bsquare.com on the Management and Governance/Board Committees page found under the “Company” tab.

Compensation Committee

The Compensation Committee currently 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 our general compensation policies as well as the compensation plans and specific compensation levels for its executive officers. The Compensation Committee held six meetings during 2014.

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 appropriate. A current copy of the Compensation Committee charter is available on our website at www.bsquare.com on the Management and Governance/Board Committees 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 our 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, responsibilities, scope and authority of the Compensation Committee, as well as the extent to which the Committee may delegate its authority and 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. Harries. Mr. Kodesh previously served on the Governance and Nominating Committee until his resignation in February 2015. The Board of

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Directors has determined that, after consideration of all relevant factors, Ms. VanderMeulen and Mr. Harries qualify as “independent” directors under applicable NASDAQ rules. The Governance and Nominating Committee held two meetings during 2014.

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 appropriate. A current copy of the Governance and Nominating Committee charter is available on our website at www.bsquare.com on the Management and Governance/Board Committees 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 BSQUARE; and
- Provide oversight in the evaluation of the Board of Directors and each committee.

All directors except Mr. Kodesh attended more 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 2014.

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 BSQUARE 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 our needs 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 BSQUARE and its shareholders, act ethically at all times and adhere to the applicable provisions of our 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 BSQUARE 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 our 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.

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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 our Secretary at our principal executive offices as referenced above at least 120 days before 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 BSQUARE, 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, including director nominations.

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 our Board of Directors and all other BSQUARE employees. A copy of this policy is available on the Management and Governance/Board Committees page on our website at www.bsquare.com or free of charge upon written request to the attention of our Secretary, by regular mail at our principal executive offices, email to 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 2014. In March 2015, the Board approved minor edits to the Code of Business Conduct and Ethics to provide additional explanation regarding the philosophies guiding our ethical business practices.

2014 Director Compensation

When joining the board, directors receive a one-time grant of 25,000 stock options, which vest quarterly over two years, and an initial 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 an initial grant of restricted stock units. The number of shares underlying the initial restricted stock unit awards granted to new directors is determined by dividing \$50,000 by our 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 our 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 our shareholders or (ii) the last trading day of our second fiscal quarter. The restricted stock unit 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.

We also pay 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. Chase, our President and Chief Executive Officer, does not receive additional compensation for services provided as a director, and has not received any such compensation since he was appointed as Interim Chief Executive Officer in September 2013.

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The table below presents the 2014 compensation of our non-employee directors. The compensation of Mr. Chase is described in the Summary Compensation Table in the section titled “Executive Officer Compensation.” As noted above, Harel Kodesh resigned from the Board of Directors effective February 17, 2015.

| Name | Fees Earned or Paid in | | | Option Awards(3) | Total |
|------------------------------|---------------------------------|-----------------|------|------------------|---------|
| | Cash(1) | Stock Awards(2) | | | |
| | (\$) | (\$) | (\$) | | (\$) |
| Andrew S.G. Harries(4) | 68,750 | 75,000 | - | | 143,750 |
| Elliott H. Jurgensen, Jr.(5) | 56,250 | 50,000 | - | | 106,250 |
| Harel Kodesh(6) | 43,750 | 50,000 | - | | 93,750 |
| William D. Savoy(7) | 60,000 | 50,000 | - | | 110,000 |
| Kendra A. VanderMeulen(8) | 47,500 | 50,000 | - | | 97,500 |

- (1) Cash fees include payments made on December 30, 2014 for service to be performed in the first quarter of 2015 in the following amounts: Mr. Harries, \$13,750; Mr. Jurgensen, \$11,250; Mr. Kodesh, \$8,750; Mr. Savoy, \$12,000; and Ms. VanderMeulen, \$9,500.
- (2) The amounts in this column reflect the aggregate grant-date fair value of 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 reflect only the awards treated as granted in 2014. 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 9 (Shareholders’ Equity) to the financial statements included in Part II, Item 8 of our 2014 10-K.
- (3) The amounts in this column reflect the aggregate grant-date fair value of stock option awards, determined in accordance with the Financial Accounting Standards Board Accounting Standards Codification Topic 718 for stock-based compensation. The amounts included reflect only the awards treated as granted in 2014. 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 9 (Shareholders’ Equity) to the financial statements included in Part II, Item 8 of our 2014 10-K.
- (4) Mr. Harries held 50,000 stock options and 11,963 restricted stock units as of December 31, 2014.
- (5) Mr. Jurgensen held 48,350 stock options and 7,976 restricted stock units as of December 31, 2014.
- (6) Mr. Kodesh held 25,000 stock options and 7,976 restricted stock units as of December 31, 2014.
- (7) Mr. Savoy held 56,250 stock options and 7,976 restricted stock units as of December 31, 2014.
- (8) Ms. VanderMeulen held 49,125 stock options and 7,976 restricted stock units as of December 31, 2014.

EXECUTIVE OFFICER COMPENSATION

Summary Compensation Table

The following table sets forth the compensation earned during the past two fiscal years by (i) the person who served as our chief executive officer during 2014 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 2014 and whose total compensation for 2014 exceeded \$100,000 (the persons described in clauses (i) and (ii) are collectively referred to herein as our “named

executive officers”) and (iii) Mr. Heimbigner, our Chief Financial Officer, Secretary and Treasurer.

Summary Compensation Table

| Name and principal position | Year | Salary (\$) | Bonus (\$) | Stock awards(1) (\$) | Option awards(2) (\$) | Nonequity incentive | All other compen- sation(4) | Total (\$) |
|--|------|----------------|---------------|----------------------------|-----------------------------|--------------------------------------|--------------------------------------|---------------|
| | | | | | | plan compen- sation(3) (\$) | (\$) | |
| Jerry D. Chase(5) President and Chief Executive Officer | 2014 | 325,040 | — | 24,900 | 275,324 | 162,500 | 5,060 | 792,824 |
| | 2013 | 65,506 | — | 50,000 | 34,462 | — | — | 149,968 |
| Scott B. Caldwell(6) Vice President, Worldwide OEM Sales | 2014 | 441,437 | — | — | 50,043 | 23,647 | 4,997 | 520,124 |
| | 2013 | 315,038 | — | — | 12,021 | 16,575 | 8,057 | 351,691 |
| Mark D. Whiteside(7) Vice President, Solutions | 2014 | 299,157 | — | — | 190,569 | — | 5,597 | 495,323 |
| | 2013 | 207,000 | — | — | — | — | 5,425 | 212,425 |
| Martin L. Heimbigner(8) | 2014 | 30,000 | — | 28,725 | 182,110 | — | — | — |