BSQUARE

2020

Annual Report

Bsquare Corporation
1415 Western Avenue, Suite 700
Seattle, WA 98104
425.519.5900
www.bsquare.com

BSQUARE

April 28, 2021

Dear Shareholder:

I hope that you and your family and friends made it through 2020 with your health and good spirits intact. For all of the tumult of 2020, it reminded us how important connection is in our life. Whether in our personal or business community, connection is essential to our well-being.

Let me start then by saying how grateful I am for the connections we have at Bsquare. We are fortunate to have such a diverse and collaborative set of customers. I have no doubt that the lessons we have learned together addressing their challenges will be a valuable source of future mutual success. We also have strong technology partners that provide new capabilities and opportunities for building our business. And finally, we have a dedicated team of entrepreneurs whose rebuilding efforts in 2020 make me proud to be associated with Bsquare.

Despite the COVID-19 pandemic, 2020 was one of Bsquare's strongest financial years in recent memory. Operating losses improved sharply; 2020 net loss was $1.9 million, a $7.3 million improvement over a net loss of $9.2 million in 2019. Our cash and cash equivalents increased by $2.4 million during 2020. Access to a PPP loan provided $1.6 million and the business generated $800,000 in cash. Year-over-year cash improvement is something not seen in recent Bsquare history.

A number of factors contributed to the improvements we saw in 2020. We started the year with an expense structure that was appropriate for the business and we maintained our emphasis on fiscal responsibility. We recognized the changing business conditions

created by the COVID-19 pandemic and took immediate action to avoid what in prior years could have been an existential crisis for the business. As result, today we have a platform we can build on in 2021.

2020 was also a year marked by significant social unrest throughout the United States. In response, we formed an Anti-Racism Task Force (ARTF) with the goal of addressing systemic racism in the corporate environment by taking direct action in our communities in the US and UK. Not only do we believe diversity makes us stronger, we are certain that racism, overt and systemic, hurts us all. With the help of our ARTF, we are building these beliefs into our regular business rhythm.

I would also like to call your attention to a few of the important changes we made for 2021 that I believe better align director and executive compensation with shareholder value. We implemented a "floor price" for calculating director stock-based compensation. We met with several investors last year that expressed concern about the ongoing dilution created by the prior structure of director compensation. The directors agreed and adjusted their compensation policy. We also adopted a more entrepreneurial approach to executive compensation that eliminates annual cash bonuses and replaces them with Performance Stock Unit awards. This aligns executive compensation with value creation for shareholders while freeing our cash for investment in the business.

Turning to matters for consideration at the upcoming annual shareholder meeting, there are a two items that I believe bear mention. First is the approval of the 2021 Equity Compensation Plan. Our current stock option plan will expire prior to our 2022 shareholder meeting so we're asking for your approval now. The board and I agree that equity compensation creates a strong alignment with shareholders and we ask for you to vote to approve the proposed plan.

We are also asking you to approve our revised Articles of Incorporation. The revisions are the last phase of efforts we began last year to modernize our bylaws and articles to

BSQUARE

allow us to operate more efficiently in today's more virtual world, while also reflecting common governance practices for companies our size.

In closing, I would like to thank you for your confidence in Bsquare. I can assure you that all of our efforts will be instilled with integrity, innovation, collaboration, fiscal responsibility, and entrepreneurship. We bring these values to bear with our customers and partners to build value for our shareholders. I look forward to working with the board of directors and Bsquare's leadership team to continue the exciting work building our reputation as a knowledgeable and service-oriented technology partner.

Warm regards,

Ralph C Derrickson
President and Chief Executive Officer

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BSQUARE CORPORATION
1415 WESTERN AVENUE, SUITE 1400, SEATTLE, WASHINGTON 98101

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 10, 2021

TO BSQUARE SHAREHOLDERS:

Notice is hereby given that the 2021 Annual Meeting of Shareholders of Bsquare Corporation, a Washington corporation (the "Company"), will be held on Thursday, June 10, 2021 at 10:00 a.m., local time. The meeting will be held at the Company's headquarters, 1415 Western Avenue, Suite 700, Seattle, Washington 98101, for the following purposes:

1. To elect Ryan L. Vardeman and Ralph C. Derrickson as Class II Directors to serve for the ensuing three years and until their successors are duly elected and qualified;
2. To approve the compensation of the Company's named executive officers;
3. To ratify the appointment of Moss Adams LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2021;
4. To approve the 2021 Equity Incentive Plan;
5. (a) To approve the amended and restated articles of incorporation, which includes separate proposals to approve and adopt amendments in the Proposed Articles that:
   (b) Eliminate the ability of holders of 25% of the votes entitled to be cast on an issue to call a special meeting;
   (c) Eliminate the fixed size of the Board of seven directors, allowing the Board to determine its size;
   (d) Eliminate the ability of shareholders to remove directors without cause;
   (e) Require a two-thirds majority of shareholders to amend specified provisions in our articles of incorporation; and
   (f) Establish an exclusive forum in Washington for certain corporate and securities claims; 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 April 13, 2021 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 13, 2021 are entitled to receive notice of, and to vote at, the meeting and any adjournment thereof.

Given the COVID-19 pandemic, the Company is adding a conference call component to its 2021 Annual Meeting. You are encouraged to dial-in to the conference call at: Toll Free: 1-800-437-2398; Toll/International: 1-856-344-9206; Conference ID: 5959951, which will include the opportunity to ask questions. While the Company plans to conduct the formal business and voting in-person, it will comply and expects shareholders to comply with all applicable stay-at-home or similar orders, including all social distancing protocols. If this requires shifting the 2021 Annual Meeting entirely to a remote format (such as webcast or telephonic meeting), the Company will make appropriate updates. However, the Company is required to hold an annual shareholders' meeting, and the Board of Directors believes that an in-person meeting with a conference call component is the best approach for the Company at this time. 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, or to follow the instructions for Internet or telephone voting in the accompanying notice or in the voter instruction form provided by your broker or other nominee. Any shareholder attending the meeting may vote in person even if the shareholder has previously returned a proxy. However, to simplify the voting process and to avoid handling your personal information, we do not plan to implement a voting feature into the conference call.

By Order of the Board of Directors

Christopher Wheaton
Chief Financial and Operating Officer, Secretary and Treasurer
Seattle, Washington
April 28, 2021

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on June 10, 2021: The proxy statement and annual report to shareholders are available at www.bsquare.com/proxy.

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BSQUARE CORPORATION
1415 WESTERN AVENUE, SUITE 1400, SEATTLE, WASHINGTON 98101

PROXY STATEMENT
FOR THE 2021 ANNUAL MEETING OF SHAREHOLDERS

PROCEDURAL MATTERS

General

The enclosed proxy is solicited by the Board of Directors (the "Board") of Bsquare Corporation, a Washington corporation. The Board has made these materials available to you over the internet, or has delivered printed versions of these materials to you by mail, in connection with the Board's solicitation of proxies for use at the 2021 Annual Meeting of Shareholders (the "Annual Meeting") to be held on Thursday, June 10, 2021 at 10:00 a.m. local time, and at any adjournment or postponement thereof for the purposes set forth in the proxy and in the accompanying Notice of Annual Meeting of Shareholders. The Annual Meeting will be held at our corporate headquarters, 1415 Western Avenue, Suite 700, Seattle, Washington 98101, with a conference call component available at: Toll Free: 1-800-437-2398; Toll/International: 1-856-344-9206; Conference ID: 5959951.

As used in this proxy statement, "we," "us," "our," "Bsquare" and the "Company" refer to BSQUARE Corporation.

These proxy solicitation materials were first made available on or about May 1, 2021 to all shareholders entitled to vote at the Annual Meeting.

How to Vote my Shares and Participate

To ensure your vote is counted, we recommend you vote your shares in advance of the Annual Meeting. Please mark, sign, date and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope enclosed for that purpose, or to follow the instructions for Internet or telephone voting in the accompanying Notice of Internet Availability of Proxy Materials or in the voter instruction form provided by your broker or other nominee. While we plan to conduct the formal business and voting in-person, we will comply and expect our shareholders to comply with all applicable stay-at-home or similar orders, including all social distancing protocols. This may require us to limit the number of in-person attendees. It may also require us to shift the meeting entirely to a remote format (such as webcast or telephonic meeting), and if that occurs, we will make appropriate updates. Accordingly, while in-person is permitted at the Annual Meeting, we urge you to vote your shares in advance.

We are also adding a conference call component to the Annual Meeting. In lieu of attending in-person, we encourage you to dial-in to the conference call at: Toll Free: 1-800-437-2398; Toll/International: 1-856-344-9206; Conference ID: 5959951. The conference call will be functionally similar to our earnings conference calls, including the opportunity to ask questions. However, to simplify the voting process and to avoid handling your personal information, we do not plan to implement a voting feature into the conference call. In turn, this means joining by conference call would not constitute attendance at the meeting for quorum purposes. Unless we change these plans, your only way to officially attend and to vote at the Annual Meeting will be to attend in-person and vote, or to vote through a proxy attending the meeting that you have instructed in advance (see "—Vote Without Attending the Annual Meeting").

Voting Without Attending the Annual Meeting

To vote your shares without attending the meeting, please follow the instructions for Internet or telephone voting on the Notice of Internet Availability of Proxy Materials. If you request printed copies of the proxy materials by mail, you may also vote by signing and submitting your proxy card and returning it by mail, if you are the shareholder of record, or by signing the voter instruction form provided by your broker or other nominee and returning it by mail, if you are the beneficial owner but not the shareholder of record. We encourage all shareholders to vote in this manner in light of the uncertainties associated with COVID-19.

Record Date and Outstanding Shares

Only shareholders of record at the close of business on April 13, 2021 (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, 13,407,029 shares of our common stock were issued and outstanding, held by 111 shareholders of record.

Revocability of Proxies

Any proxy may be revoked by the person giving it at any time prior to its use. To do so, the shareholder must either: (i) deliver a written instrument revoking the proxy to our Corporate Secretary, at the address referenced above or (ii) deliver a duly executed proxy bearing a later date (in either case no later than the close of business on June 9, 2021); or (iii) attend the Annual Meeting and vote 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, 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, such as a broker or other nominee, then the broker 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 on how to vote their shares using the voting instruction form provided by that broker or other nominee. Many brokers or other nominees 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, and you should contact your broker or other nominee with any questions about its form or how to vote.

Quorum; Broker Non-Votes and Abstentions

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 represented by proxy. A quorum is necessary for the transaction of business at the Annual Meeting.

Broker non-votes can occur as to shares held in street name. This is the case when a broker or other nominee submits a proxy for the Annual Meeting but does not vote on a particular proposal because that broker or other nominee does not have discretionary voting power with respect to that proposal and has not received instructions from the beneficial owner. 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 they have discretionary voting authority.

The election of directors (Proposal No. 1), approval of compensation of executive officers (Proposal No. 2), approval of the 2021 Equity Incentive Plan (Proposal No. 4), approval of the amended and restated articles of incorporation (Proposal No. 5), including each component thereof in Proposal Nos. 5(a)-5(f), and are proposals for which brokers and other nominees do not have discretionary voting authority. If you do not instruct your broker or other nominees how to vote on these proposals, your broker or other nominees 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. 3) is considered 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 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 who receive the greatest number of votes cast "for" the election of the directors by the shares present, in person or represented by proxy, will be elected to the Board. Shareholders are not entitled to cumulate votes in the election of directors.

- With regard to Proposal Nos. 2, 3, 4, and 5(a)-(f), 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 ratify the appointment of Moss Adams LLP as our independent registered public accounting firm;

FOR Proposal No. 4, to approve the 2021 Equity Incentive Plan; and

FOR Proposal No. 5(a), to approve the amended and restated articles of incorporation, including as to the separate proposals to approve and adopt amendments in the Proposed Articles to vote:

FOR Proposal No. 5(b), to eliminate the ability of holders of 25% of the votes entitled to be cast on an issue to call a special meeting;

FOR Proposal No. 5(c), to eliminate the fixed size of the Board of seven directors, allowing the Board to determine its size;

FOR Proposal No. 5(d), to eliminate the ability of shareholders to remove directors without cause;

FOR Proposal No. 5(e), to require a two-thirds majority of shareholders to amend specified provisions in our articles of incorporation; and

FOR Proposal No. 5(f), to establish an exclusive forum in Washington for certain corporate and securities claims.

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 2022 annual meeting of shareholders in June 2022, 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 2022, we must receive the proposal at our principal executive offices, addressed to our Secretary, no later than January 1, 2022. 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 2021 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 earlier than January 1, 2022 and no later than January 31, 2022. 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, 1415 Western Avenue, Suite 1400, Seattle, Washington 98101, Attention: Secretary.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

General

Our articles of incorporation currently provide that the Board has seven seats. The Board is 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 Director

Two Class II directors are to be elected at the Annual Meeting for three-year terms ending in 2024. The Governance and Nominating Committee of the Board has nominated Ryan L. Vardeman and Ralph C. Derrickson for election as Class II directors. Unless otherwise instructed, the proxy holders will vote the proxies received by them for the election of Ryan L. Vardeman and Ralph C. Derrickson to the Board. Each of the nominees has indicated that he or she will serve if elected. We do not anticipate that any of 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.

Vote Required for Election of Directors

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

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.

Name of Director Nominees	Age	Position	Director Since	Term Expires
Ralph C. Derrickson	62	Director, President and Chief Executive Officer	2019	2024 (Class II)
Ryan Vardeman	43	Director	2018	2024 (Class II)

Name of Continuing Directors	Age	Position	Director Since	Term Expires
Robert J. Chamberlain	67	Director	2015	2023 (Class I)
Andrew S.G. Harries	59	Chairman of the Board	2012	2023 (Class I)
Davin W. Cushman	47	Director	2018	2022 (Class III)
Mary Jesse	56	Director	2016	2022 (Class III)
Robert J. Peters	43	Director	2018	2022 (Class III)

Director Nominees

Ryan L. Vardeman has been a director since June 2018. Mr. Vardeman is a principal and co-founder of Palogic Value Management, L.P., a Dallas, Texas based investment management company, a position he has held since January 2007. Mr. Vardeman has extensive corporate strategy, operating, financial and investment experience including capital structure analysis, a focus on small-cap equities, and investing in a broad range of industries with an emphasis on technology and software companies. Mr. Vardeman holds a B.S. in Electrical Engineering and Computer Science from Texas Tech University and an M.B.A. from the Owen Graduate School of Management at Vanderbilt University. The Board has concluded that Mr. Vardeman should serve as a director because of his extensive financial and operational experience and given his affiliation with one of our largest shareholders.

Ralph C. Derrickson has been a director and our President and Chief Executive Officer since March 2019. Prior to that, since July 2018, Mr. Derrickson served as the Managing Director of RCollins Group, a strategic consulting company, and from October 2017 until July 2018, he served as the Senior Vice President of Corporate Development for Avizia, Inc., a telemedicine hardware, software and physician services company, until its acquisition by American Well in July 2018. From January 2006 until October 2017, Mr. Derrickson served as the President and Chief Executive Officer of Carena, Inc., a virtual care software and physician services company, until its acquisition by Avizia in October 2017. Prior to that, Mr. Derrickson was managing director of venture investments at Vulcan Inc., an investment management firm, was a founding partner of Watershed Capital, an early-stage venture capital firm, and held senior leadership positions at

Metricom, Starwave Corporation (acquired by Walt Disney), NeXT Computer (acquired by Apple Computer) and Sun Microsystems. Since 2004, Mr. Derrickson has been a board member of Perficient, Inc. (NASDAQ: PRFT), a publicly traded digital transformation consulting company. Mr. Derrickson holds a B.T. in Systems Software Science from the Rochester Institute of Technology. The Board has concluded that Mr. Derrickson should serve as a director because of his experience as a chief executive officer, and in various other executive roles, which has provided him with broad leadership and executive experience, including operational, strategic planning, corporate development and mergers and acquisitions experience. As our President and Chief Executive Officer, Mr. Derrickson has first-hand knowledge of our business and provides valuable insight with respect to our operations and strategic opportunities.

Continuing Directors

Robert J. Chamberlain has been a director since August 2015. Since April 2018, Mr. Chamberlain has been the Chief Financial Officer of ZipWhip, a two-way business texting software company. From August 2014 to April 2016, Mr. Chamberlain served as the Chief Financial Officer of Big Fish Games Incorporated, a leading provider of casual games, which was acquired by Churchill Downs, Inc. in December 2014. From February 2013 to August 2014, Mr. Chamberlain served as the Senior Vice President and Chief Financial Officer of Audience Science Incorporated, a leading provider of enterprise advertising management systems. Prior to that, Mr. Chamberlain was the Chief Financial Officer of other technology companies in the Seattle area including PopCap Games Incorporated (acquired by Electronic Arts, Inc.), WatchGuard Technologies Incorporated, F5 Networks, Onyx Software Corp. (acquired by Consona Corporation) and Photodisc (acquired by Getty Images, Inc.). Earlier in his career, Mr. Chamberlain was an audit partner in the Seattle office of KPMG where he served middle market public and private companies. Mr. Chamberlain has a B.S. in Business Administration-Accounting from California State University Northridge. The Board has concluded that Mr. Chamberlain should serve as a director because he provides 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, and sales and marketing experience at KPMG.

Andrew S. G. Harries has been a director since November 2012, has served as the Chairman of the Board since July 2013 and served as the Executive Chairman from May 2018 to March 2019. Mr. Harries is a business advisor and corporate director and since 2016 has held the post of Tom Foord Professor of Practice in Innovation and Entrepreneurship at Simon Fraser University's Beedie School of Business. Mr. Harries chaired the board of directors of Contractually, an online contract management company, from January 2014 until its acquisition by Coupa Software in December 2015, and co-founded Zeugma Systems Inc. where he served as the President and Chief Executive Officer from 2004 until Tellabs Inc. acquired substantially all of Zeugma in 2010. Mr. Harries was a co-founder of Sierra Wireless (NASDAQ: SWIR), a NASDAQ-listed wireless Internet of Things systems vendor, from 1993 to 2004, and previously served as Sierra's Senior Vice President of Sales, Marketing and Operations. Prior to co-founding Sierra Wireless, Mr. Harries held a variety of positions at Motorola Inc. He holds three US patents and an M.B.A. from Simon Fraser University. The Board 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.

Davin W. Cushman has been a director since November 2018. Mr. Cushman currently serves as CEO of Brightrose Software, a private, acquisition-focused growth company launched in 2021 from Cushman Management Company, a boutique advisory firm Mr. Cushman founded in 2010. Mr. Cushman started his career in 1996 with enterprise application pioneer Trilogy. Mr. Cushman's professional experience also includes roles in operations and workforce strategy with Capital One. Mr. Cushman most recently completed a 10+ year stint in 2020 as CEO of Ignite Technologies and its affiliates, a privately held group formed through more than 40 mergers and acquisitions of small to mid-sized software companies. Mr. Cushman holds a B.A. in Politics from Princeton University and an M.B.A. from the Kellogg School of Management from Northwestern University. The Board has concluded that Mr. Cushman should serve as a director because of his nearly 20 years in various roles in the enterprise software industry, including leadership of companies that provide software and technical consulting services to the types of organizations Bsquare serves.

Mary Jesse has been a director since August 2016. Ms. Jesse is a technology executive, strategist, inventor and pioneer in the wireless industry. Ms. Jesse currently serves as Chief Executive Officer of MTI, a global hardware, software and services provider. She additionally serves on the MTI board. From 2019-2020, she served as a Senior Director for Alvarez & Marsal in their Corporate Performance Improvement (CPI) division. From January 2018 to August 2018, Ms. Jesse served as Chief Executive Officer and board member of Heyou Media, a technology-driven content company. From September 2015 to October 2017, she served as Chief Strategy Officer of VRstudios, a global virtual reality company based in Bellevue, Washington. From 2007 to October 2014, she was the founder and Chief Executive Officer of Ivy Corp., an enterprise messaging technology company. Prior to that, she served as the co-founder and Chief Technology Officer of RadioFrame Networks; Vice President of Strategic Technology of McCaw Cellular Communications, Inc.; and Vice President of Technology Development of AT&T Wireless. A licensed professional engineer, Ms. Jesse holds a B.S. in electrical engineering from the University of Utah and an M.S. in electrical engineering from Santa Clara University, in addition to having authored nineteen patents. She currently serves on the Washington Governors University business council in addition to serving as an advisor to multiple technology companies. Ms. Jesse volunteers her time to support STEM education, entrepreneurship and diversity in business and technology. The Board has concluded that Ms. Jesse should serve as a director because of her extensive technology product development experience and work with a wide range of emerging businesses.

Robert J. Peters has been a director since August 2018 and served as an observer to the Board from June to August 2018. Mr. Peters is a principal and co-founder of Palogic Value Management, L.P., the investment manager of Palogic Value Fund, LP, a Dallas, Texas based investment management company, a position he has held since January 2007. Mr. Peters routinely analyzes public companies' business

plans, financial statements, and competitive positioning. Prior to founding Palogic, Mr. Peters was an investment banker with Stephens Inc., based in Little Rock, Arkansas, where he served as an analyst and associate responsible for execution of a variety of corporate finance transactions including sell side mergers and acquisitions, buy side mergers and acquisitions, leveraged buyouts, private equity investments, initial public offerings, and private placements of debt and equity. Mr. Peters attended Texas Tech University and received an M.S. in Accounting and a B.A. in Business Administration – Accounting. The Board has concluded that Mr. Peters should serve as a director because of his significant experience in equity capital markets, assessing corporate strategy, and capital allocation and given his affiliation with one of our largest shareholders.

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE FOR THE ELECTION OF EACH OF MESSRS. VARDEMAN AND DERRICKSON TO THE BOARD.

CORPORATE GOVERNANCE

Board Leadership Structure

The Board 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 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 the business while leveraging the experience and perspectives of the Chairman. Our Chief Executive Officer has historically served as a member of and as the sole management representative on the Board. Mr. Derrickson is a director as well as our President and Chief Executive Officer. We believe it is important to enable our Chief Executive Officer to provide information and insight about us directly to the directors in their deliberations. Further, our Board believes that separating the Chief Executive Officer and Chairman of the Board roles as well as 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, enhancing its efficacy by guiding its processes and presiding at Board 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 and executive management, promoting clear and open communication between management and the Board.

Board Role in Risk Oversight

Our Board 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, our Board committees assist the Board in fulfilling its oversight responsibilities in certain areas of risk. In particular, our Audit Committee focuses on financial, accounting and investment risks and oversees and approves company-wide risk management practices. Our Governance and Nominating Committee focuses on the management of risks associated with Board organization, membership, structure and corporate governance. In addition, our Compensation Committee assists the Board 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.

Director Independence

The Board has determined, after consideration of all relevant factors, that each of Messrs. Chamberlain, Cushman, Harries, Peters and Vardeman and Ms. Jesse, together constituting a majority of our Board, qualifies as an “independent” director as defined under applicable rules of The NASDAQ Stock Market LLC (“NASDAQ”) and that none of such directors has any relationship with us that would interfere with the exercise of their independent business judgment. Mr. Derrickson does not qualify as an “independent” director under applicable NASDAQ rules because he serves as our President and Chief Executive Officer.

Standing Committees and Attendance

The Board held six meetings during 2020. All directors attended more than 75% of the aggregate of the meetings of the Board and committees thereof, if any, upon which such director served during the period for which he or she was a director or committee member during 2020.

The Board has an Audit Committee, a Compensation Committee and a Governance and Nominating Committee. Each of these committees operates under a written charter setting forth its functions and responsibilities, which is reviewed by the respective committee on an annual basis, and by the Board as appropriate. A current copy of each committee’s charter is available on our website at www.bsquare.com on the Corporate Governance page under Board Committees. Information about these standing committees and committee meetings is set forth below.

Audit Committee

The Audit Committee is currently comprised of Messrs. Chamberlain (Committee Chair) and Harries and Ms. Jesse. The Board has determined that, after consideration of all relevant factors, each of these directors qualifies as an “independent” director 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. No member of the Audit Committee has participated in the preparation of our consolidated financial statements, or those of any of our current subsidiaries, at any time during the past three years. The Board has designated Mr. Chamberlain as an “audit committee financial expert” as defined under applicable SEC rules and has determined that Mr. Chamberlain 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 2020.

Compensation Committee

The Compensation Committee currently consists of Messrs. Cushman, Harries and Vardeman (Committee Chair). The Board has determined that, after consideration of all relevant factors, each of these directors qualifies as an "independent" and "non-employee" director under applicable NASDAQ and SEC rules. The Compensation Committee makes recommendations to the Board 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 2020.

One of the primary responsibilities of the Compensation Committee is to oversee, and make recommendations to the Board 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 its evaluation to the Board;
- Developing and maintaining a succession plan for the 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 and related matters.

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, the role that our executive officers serve in recommending compensation and the role of compensation consultants in our compensation process is set forth below under "Executive Officer Compensation."

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

Governance and Nominating Committee

The Governance and Nominating Committee ("GNC") currently consists of Ms. Jesse (Committee Chair), Mr. Cushman and Mr. Peters. The Board has determined that, after consideration of all relevant factors, each of these directors qualifies as an "independent" director under applicable NASDAQ rules. The Governance and Nominating Committee held four meetings during 2020.

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

- Develop and recommend to the Board 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 and the qualifications, appointment and removal of committee members;
- Recommend codes of conduct and codes of ethics applicable to us;
- Evaluate the composition and performance of the Board;
- Ensure directors are keeping abreast of current governance standards; and
- Provide oversight in the evaluation of the Board and each committee.

Director Nomination Process

The Board has determined that director nomination responsibilities should be overseen by the GNC. One of the GNC's goals is to assemble a Board that brings to us a variety of perspectives and skills derived from high quality business and professional experience. Although the GNC and the Board do not have a formal diversity policy, the Board instructed the GNC 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 GNC 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, the Internet of Things industry, 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 and any committees of the Board. In addition, directors are expected to be able to exercise their best business judgment when acting on behalf of us and our 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 GNC, there are no stated minimum criteria, qualities or skills for director nominees. The GNC may also consider such other factors as it may deem are in the best interests of us and our shareholders. In addition, at least one member of the Board 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 should meet the definition of "independent director" under applicable NASDAQ rules.

The GNC identifies director nominees by first evaluating the current members of the Board willing to continue in service. Current members of the Board 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 with that of obtaining a new perspective. The GNC also takes into account an incumbent director's performance as a Board member. If any member of the Board does not wish to continue in service, if the GNC 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 decides to recommend that the size of the Board be increased, the GNC identifies the desired skills and experience of a new nominee in light of the criteria described above. Current members of the Board and management are polled for suggestions as to individuals meeting the GNC's criteria. Research may also be performed to identify qualified individuals. Nominees for director are selected by a majority of the members of the GNC, with any current directors who may be nominees themselves abstaining from any vote relating to their own nomination.

It is the policy of the GNC to consider suggestions for persons to be nominated for director that are submitted by shareholders. The GNC 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 not later than 90 days nor earlier than 120 days prior 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 Corporation, a description of the proposed nominee's relationship to the shareholder and any information that the shareholder feels will fully inform the GNC about the proposed nominee and his or her qualifications. The GNC 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.

Executive Officers

The names and certain information about the Executive Officers are set forth below.

Name	Age	Position
Ralph C. Derrickson	62	Director, President and Chief Executive Officer
Christopher V. Wheaton	49	Chief Financial Officer, Chief Operating Officer, Secretary and Treasurer

Mr. Derrickson's biographical details are set out above under the heading titled "Directors."

Christopher Wheaton joined us as Chief Financial Officer in September 2019. Prior to joining Bsquare, in November 2018, Mr. Wheaton was employed at IslandWood, a non-profit environmental education organization and served as its interim Chief Financial and Operating Officer from January 2019 to September 2019. From April 2015 to September 2018, Mr. Wheaton served as the Chief Operating and Financial Officer for Pacific Science Center Foundation, a non-profit educational organization. From July 2003 until April 2015, Mr. Wheaton co-founded and served as the Chief Operating and Financial Officer for EnerG2 Technologies, Inc., an advanced carbon materials manufacturing company. Prior to 2003, Mr. Wheaton was employed by several public and private companies in senior financial management positions. Since January 2020, Mr. Wheaton has been a board member of PEMCO, a mutual insurance company serving the property and casualty market in the Pacific Northwest. Mr. Wheaton received a B.A. from Northwestern University and an MBA from the Stanford Graduate School of Business.

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 and all other employees. A copy of the Code of Business Conduct and Ethics is available on our website at www.bsquare.com on the Corporate Governance page. We will disclose, on our website, any amendment to, or waiver from, 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.

2020 Director Compensation

When joining the Board, we historically granted directors a one-time grant of 25,000 stock options, which vest quarterly over two years, and an initial grant of restricted stock units, or RSUs. The Chairman of the Board historically received 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 received 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). Starting in 2021, we eliminated the option component of director compensation and established a floor price of $3.25 for all RSUs awarded to directors to better align director compensation with value creation for shareholders. 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. The Board may also determine to pay these cash amounts in RSUs, subject to a floor price of $3.25 per RSU. All cash amounts are payable in quarterly increments. Directors are also reimbursed for reasonable expenses incurred for Board-related activities. Notwithstanding the foregoing, directors who are also our employees, including Mr. Derrickson, our President and Chief Executive Officer, do not receive additional compensation for services provided as a director.

The table below presents the 2020 compensation of our non-employee directors. The compensation of Ralph C. Derrickson, a director and President and Chief Executive Officer, is described in the Summary Compensation Table in the section titled "Executive Officer Compensation."

Director Compensation Table

Name	Fees Earned or Paid in Cash (1) ($)	Stock Awards (2) ($)	Option Awards (3) ($)	Total ($)
Robert J. Chamberlain (4)	$ 40,000	$ 50,000	$ -	$ 90,000
Davin W. Cushman (5)	46,889	50,000	-	96,889
Andrew S.G. Harries (6)	55,000	75,000	-	130,000
Mary Jesse (7)	48,000	50,000	-	98,000
Robert J. Peters (8)	35,000	50,000	-	85,000
Ryan L. Vardeman (9)	35,000	50,000	-	85,000

(1) Fees paid earned or paid in cash are composed of payments for services performed in each prior quarter.

(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 ("Topic 718") without regard to forfeitures. The amounts included reflect only the awards treated as granted in 2020. Assumptions used in the calculation of these award amounts are set forth in Note 11 (Shareholders' Equity) to the financial statements included in Part II, Item 8 of our Annual Report on Form 10-K.

(3) The amounts in this column reflect the aggregate grant-date fair value of stock option awards, determined in accordance with Topic 718 without regard to forfeitures. The amounts included reflect only the awards treated as granted in 2020. Assumptions used in the calculation of these award amounts are set forth in Note 11 (Shareholders' Equity) to the financial statements included in Part II, Item 8 of our Annual Report on Form 10-K.

(4) Mr. Chamberlain held 25,000 vested stock options and 25,338 unreleased restricted stock units as of December 31, 2020.

(5) Mr. Cushman held 25,000 vested stock options and 25,338 unreleased restricted stock units as of December 31, 2020.

(6) Mr. Harries held 25,000 vested stock options and 38,007 unreleased restricted stock units as of December 31, 2020.

(7) Ms. Jesse held 25,000 vested stock options and 25,338 unreleased restricted stock units as of December 31, 2020.

(8) Mr. Peters held 25,000 vested stock options and 25,338 unreleased restricted stock units as of December 31, 2020.

(9) Mr. Vardeman held 25,000 vested stock options and 25,338 unreleased restricted stock units as of December 31, 2020.

2020 Executive Officer Compensation

The following table sets forth the compensation earned during the past two fiscal years by Ralph C. Derrickson, our President and Chief Executive Officer, and Christopher Wheaton, our Chief Financial Officer, Chief Operating Officer, Secretary and Treasurer. We did not have any other executive officers during 2020. We refer to these persons as our "named executive officers."

Summary Compensation Table

Name and principal position	Year	Salary ($)	Option awards(1) ($)	All other compen-sation(2) ($)	Total ($)
Ralph C. Derrickson	2020	325,000	-	34,673	359,673
President and Chief Executive Officer	2019	256,250	1,108,125	9,111	1,373,486
Christopher Wheaton	2020	275,000	34,500	18,723	328,223
Chief Financial Officer, Chief Operating Officer, Secretary and Treasurer	2019	72,981	164,050	3,938	240,969

(1) The amounts in this column reflect the aggregate grant-date fair value of stock option awards, determined in accordance with Topic 718 without regard to forfeitures. The amounts included for a particular year reflect only the awards treated as granted in that year. Assumptions used in the calculation of these award amounts are set forth in Note 11 (Shareholders' Equity) to the financial statements included in Part II, Item 8 of our 2020 10-K.

(2) Represents 401(k) matching employer contributions, premiums paid by us under a group medical or life insurance plan, and any other allowances for parking and mobile telephone / data service, which includes personal use.

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 our agreement with Mr. Derrickson entered into in February 2019, Mr. Derrickson is entitled to receive an annual salary of at least $325,000 and is eligible to receive an annual bonus equal to 50% of his annual salary at 100% achievement. His 2021 salary is set at $345,000, and we have agreed that bonuses will be paid in the form of performance-based RSUs, as described further in the Determination of Compensation section below. In the event Mr. Derrickson's employment is terminated by us when neither cause nor long term disability exists (as such terms are defined in the agreement), subject to execution of a release by Mr. Derrickson of any employment-related claims, he shall be entitled to receive severance equal to nine months of his then annual base salary, continued COBRA coverage at our expense for a period of nine months following his termination date and a pro rata portion of his annual bonus as determined by the Compensation Committee. In the event that, within twelve months after a change of control of Bsquare (as defined in the agreement), Mr. Derrickson's employment is terminated when neither cause nor long term disability exists or Mr. Derrickson terminates his employment for good reason (as defined in the agreement), subject to execution of a release by Mr. Derrickson of any employment-related claims, he shall be entitled to receive a one-time lump sum severance payment equal to twelve months of his then annual base salary, 100% of his target annual bonus as determined by the Compensation Committee, and continued COBRA coverage at our expense for a period of twelve months following his termination date (provided that, during the first twelve months after a change of control of Bsquare, such severance payments shall be in lieu of the severance payments described in the preceding sentence, and after expiration of the twelve-month period following a change of control, Mr. Derrickson shall only be entitled to the severance payments described in the preceding sentence). In addition, immediately prior to a change of control of Bsquare, all of Mr. Derrickson's unvested stock options and restricted stock units shall become fully vested and immediately exercisable.

Under our agreement with Mr. Wheaton entered into in August 2019, Mr. Wheaton is entitled to receive an annual salary of at least $275,000 and is eligible to receive an annual bonus of $100,000 at 100% achievement. His 2021 salary is set at $300,000, and we have agreed that bonuses will be paid in the form of performance-based RSUs, as described further in the Determination of Compensation section below. In the event that, within twelve months after a change of control of Bsquare (as defined in the agreement), Mr. Wheaton's employment is terminated when neither cause nor long term disability exists or Mr. Wheaton terminates his employment for good reason (as defined in the agreement), subject to execution of a release by Mr. Wheaton of any employment-related claims, he shall be entitled to receive a one-time lump sum severance payment equal to six months of his then annual base salary, 100% of his target annual bonus as determined by the Compensation Committee, and continued COBRA coverage at our expense for a period of six months following his termination date. In addition, immediately prior to a change of control of Bsquare, all of Mr. Wheaton's unvested stock options shall become fully vested and immediately exercisable.

Determination of Compensation

The Compensation Committee's philosophy regarding total executive compensation has been to provide a comprehensive and competitive compensation package consisting of base salary and performance-based incentives that help align executive compensation with shareholder interests and promote growth in shareholder value. The Compensation Committee believes total executive compensation is below market peer median levels. We also periodically review the level of incentive-based compensation for each member of our executive team. We intend to maintain competitive levels of compensation for our management team. In 2021, we decided to eliminate future cash bonuses in exchange for an award of performance-based RSUs with vesting based on stock performance and service conditions.

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:

- *Competitive level*: The Compensation Committee has the authority to engage its own advisers to assist in carrying out its responsibilities. Historically the Compensation Committee has engaged a compensation consultant to review and assess the market competitiveness of our executive compensation programs.

- *Company and individual performance objectives:* In addition to considering compensation levels of executives at similarly sized regional public companies, the Compensation Committee reviews our financial and non-financial performance objectives applicable to each executive. Our performance objectives are typically determined through collaboration with the Chief Executive Officer, the Board and the Compensation Committee. The Compensation Committee determines the financial and non-financial performance objectives applicable to the Chief Executive Officer (without his participation). These objectives and associated awards have historically been addressed through annual cash or equity bonuses with respect to our executive officers.

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 a benchmark group), but instead considers the general market compensation data along with our 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 regarding whether and in what amounts to award discretionary cash or equity bonuses.

Short-Term Incentive Plan Compensation (STI)

We have historically awarded short-term incentive compensation to our named executive officers, including annual cash or equity bonuses, the terms of which vary from year to year.

In March 2020, upon the recommendation of the Compensation Committee, our Board adopted the Bsquare Corporation Executive Bonus Plan ("EBP"), which formalized the Company's historical practice of awarding annual bonuses to certain key executives of the Company based on achievement of specified performance goals. Awards may be in the form of cash or equity granted under the equity incentive plans. The Board designated the Committee as the administrator of the EBP (the "Administrator"). The Administrator may establish performance goals that relate to financial, operational or other performance of the Company, or to any other performance goal established by the Administrator in connection with a potential bonus payment (the "Performance Goals"). Pursuant to the EBP, the Administrator established Performance Goals for 2020 relating to segment revenues and contribution margin and working capital levels. Following completion of the 2020 Performance Period, the amounts payable to each Covered Executive under the EBP will be based entirely on the determination of the Administrator regarding the level of achievement of the Performance Goals. The Administrator has authority to revise or refine the Performance Goals in its discretion. The EBP was also reassessed and restructured to more tightly align compensation with both short- and long-term shareholder interests and to be responsive to prior shareholder advisory votes on executive compensation.

Long-Term Equity Incentive Awards (LTI)

Longer-term incentives in the form of grants of stock options, restricted stock, RSUs and other forms of equity instruments to executive officers are governed by the fourth amended and restated stock plan (the "Current Stock Plan") or our 2011 Inducement Award Plan (the "Inducement Plan"), as applicable.

Historically, we granted stock options at the time we hired an executive officer under the Inducement Plan. We stopped using our Inducement Plan in 2019 and formally terminated it in 2021, in favor of using shareholder-approved Current Stock Plan for all equity incentive awards, including those to new hires

Further, the Compensation Committee periodically reviews the equity ownership of the executive officers and may determine that additional awards of equity instruments under the Current Stock Plan are warranted based on a number of factors, including competitive factors, company and individual performance, the vested status of currently outstanding equity awards, the executive's equity ownership in relation to that of 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. Our only equity award to executive officers in 2020 was an August 2020 award to Mr. Wheaton of options to acquire 25,000 shares of our common stock, which vests 25% on the one-year anniversary and the balance in equal monthly installments for three years thereafter.

Other Compensation and Perquisites

Executive officers, including the named executive officers, are eligible to participate in standard benefit plans available to all employees including our 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 because they are more highly compensated than most other employees (e.g., disability benefits). We do not provide any pension or deferred compensation benefits to our executive officers.

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, 2020:

	Option Awards				
		Number of Securities Underlying Unexercised Options			
Name	Grant Date	Exercisable (#)	Unexercisable (#)	Option Exercise Price ($) (1)	Option Expiration Date (2)
Ralph C. Derrickson	03/11/2019	164,063	210,937	$ 1.97	03/11/2029
	03/11/2019	—	187,500	$ 1.97	03/11/2029
Christopher Wheaton	09/09/2019	40,367	88,806	$ 1.27	09/09/2029
	08/26/2020	—	25,000	$ 1.38	08/26/2030

(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.

Employee Benefit Plans

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. Company matching contributions and employee 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 us 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.

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, 2020:

	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	1,215,140 (1)	$1.84	954,355
Equity compensation plans not approved by security holders	736,448 (2)	1.93	287,770 (3)

(1) Amount includes 164,697 restricted stock units granted and unvested as of December 31, 2020.

(2) Amount includes no restricted stock units granted and unvested as of December 31, 2020.

(3) Indicates shares of our common stock reserved for future issuance under the Inducement Plan. The Inducement Plans allow us to grant options, restricted stock, restricted stock units and certain other equity-based compensation in connection with hiring new employees. The number of shares reserved for issuance may be modified by the Board, subject to SEC and NASDAQ limitations. There were 791,673 options and no restricted stock units granted under the Inducement Plan during 2019. Following these awards, we determined to stop using the Inducement Plan in 2019, and we formally terminated the Inducement Plan in 2021.

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 March 15, 2021 by:

- each person who is known by us to own beneficially more than five percent (5%) of the outstanding shares of common stock;
- each of our directors;
- 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 owned plus settled RSUs; the number of shares listed under the heading "Deemed Outstanding Shares" includes vested stock options plus unvested options and restricted stock units that may be exercised or settled for common stock within 60 days after March 31, 2020. Deemed Outstanding Shares are considered beneficially owned by the holder for the purpose of computing share and percentage ownership of that holder presented below, but are not treated as outstanding for the purpose of computing the percentage ownership of any other holder presented below.

This table is based on information supplied by officers, directors, and filings made with the SEC. Percentage ownership is based on 13,298,150 shares of common stock outstanding as of March 31, 2020.

Unless otherwise noted below, the address for each shareholder listed below is c/o Bsquare Corporation, 1415 Western Avenue, Suite 700, Seattle, Washington 98101. 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 (Deemed Outstanding Shares)	Percentage of Common Stock Equivalents
5% Owners:			
Palogic Value Management, L.P (1)	1,585,711	—	11.9%
5310 Harvest Hill Road, Suite 110			
Dallas, TX 75230			
Renaissance Technologies LLC (2)	1,134,531	—	8.5%
800 Third Avenue			
New York, NY 10022			
Directors and Named Executive Officers:			
Ryan L. Vardeman (5)	1,653,992	33,446	12.7%
Andrew S.G Harries	298,290	37,669	2.5%
Ralph C. Derrickson	35,000	257,813	2.2%
Robert J. Chamberlain	93,871	33,446	1.0%
Davin W. Cushman	86,700	33,446	0.9%
Mary Jesse	86,440	33,446	0.9%
Robert J. Peters (6)	71,046	33,446	0.8%
Christopher Wheaton	15,000	53,823	0.5%
All executive officers and directors as a group	2,340,339	516,535	20.7%

(1) The indicated ownership is based solely on SEC Form 4, filed with the SEC on August 28, 2020, according to which Palogic Value Management, L.P., Palogic Value Fund, L.P., Palogic Capital Management, LLC and Mr. Vardeman then had shared voting and dispositive power such shares.

(2) The indicated ownership is based solely on a Schedule 13G/A filed with the SEC on February 11, 2021, according to which each of Renaissance Technologies LLC and Renaissance Technologies Holdings Corporation has sole voting power and dispositive power over such shares.

(3) Mr. Vardeman is a principal of and may be deemed to beneficially own securities beneficially owned by Palogic Capital Management.

(4) Mr. Peters is a principal of Palogic Capital Management but does not have dispositive or voting power over shares beneficially owned by Palogic Capital Management.

Pursuant to our Insider Trading Policy, we strongly discourage all employees from engaging in any form of hedging transactions, such as prepaid variable forwards, equity swaps, collars and exchange funds. We believe facing the full risks and rewards of ownership is important to aligning the objectives of employees with our other shareholders. Any employee wishing to enter into such a hedging transaction must obtain pre-clearance at least two weeks in advance and set forth a justification for the proposed transaction.

We also prohibit pledging of securities in a margin account or as collateral for a loan. Because the timing of any need by the secured party to foreclose on the pledged shares is inherently uncertain, we believe there is unacceptable risk that a margin or foreclosure sale could occur at a time when the pledgor is aware of material nonpublic information.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There were no transactions since January 1, 2020, nor are there any proposed transactions as of the date of this proxy statement, as to which the amount involved exceeds $120,000 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 the headings “2020 Director Compensation” and “Executive Officer Compensation.”

PROPOSAL NO. 2

ADVISORY VOTE ON EXECUTIVE COMPENSATION

General

On an annual basis, 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" vote, is not binding on us, our Board 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 the views of our shareholders 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. For example, we have revised several pay practices in 2019 and 2020 in light of the voting results at our 2019 and 2020 annual meetings of shareholders.

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 above under the heading "Executive Officer Compensation," 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.

Shareholder Engagement

When our say-on-pay proposal slimly passed in 2019, our new management team began soliciting feedback from our shareholders about our executive compensation with a view to better aligning our executive compensation with shareholder expectations. This continued in 2020, even as our 2020 say-on-pay proposal passed by more than 75%. In 2020, we conducted multiple shareholder outreach meetings, including with individual and institutional shareholders, at which we discussed executive compensation matters. The feedback we have received from shareholders has related almost exclusively to improving our business operations, including preserving our cash to support our operations, ensuring that executive compensation is clearly tied to improved company performance, and avoiding excessive dilution.

Reflecting this feedback, we have simplified our executive compensation to consist primarily of base salary, performance-based bonuses, and long-term equity incentive compensation. We did not award bonuses to executive officers for our performance in 2018, 2019 or 2020. Our only equity award to executive officers in 2020 was an August 2020 option award to Mr. Wheaton, due to his significant efforts in 2019 and 2020 to restructure our operations, which vest over four years. In 2021, we also determined to award performance-based restricted stock units that vest upon a sustained trading price of $3.25 per share. We also eliminated the option component of director compensation and established a floor price of $3.25 for all RSUs awarded to directors.

We believe the following demonstrates our commitment to responsible compensation practices:

- As shown in our recent compensation decisions, we only award bonuses to executive officers based on satisfaction of pre-established company performance objectives that are not easily obtained, that are carefully tied to long-term value and growth, and that are determined by our fully independent Compensation Committee. We did not award such bonuses in 2018, 2019 or 2020.

- We have the ability to award annual bonuses in equity than cash, further aligning long-term incentives of management with those of our shareholders.

- We have revised our go-to-market strategy and eliminated positions in our senior leadership, which materially decreased total executive compensation expenses, which were under $700,000 in 2020.

- We stopped using our Inducement Plan in 2019 and formally terminated it in 2021, in favor of using shareholder-approved Current Stock Plan for all equity incentive awards, including those to new hires.

- We do not "gross up" any tax payment obligation in the event that payments to executives would subject them to the IRS parachute excise tax.

- We do not generally provide for accelerated vesting of equity awards for participants in the event of a change in control, although we may do so in certain cases.

- We seek and obtain input from our shareholders regarding our executive compensation programs, and we hold annual "say-on-pay" votes to allow all shareholders communicate their approval or disapproval or executive compensation.

We believe these and other practices demonstrate our commitment to pay for performance, to aligning compensation with long-term value creation, and to listening to our shareholders about compensation matter and taking action.

Our named executive officers and their compensation is described above under the heading "Executive Officer Compensation," including our compensation philosophy and objectives and the fiscal 2020 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 2021 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, 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 RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS.

PROPOSAL NO. 3

RATIFY APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The independent registered public accounting firm of Moss Adams LLP ("Moss Adams") has acted as our auditor since May 2006 and has audited our financial statements for the years ended December 31, 2020 and 2019. 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 join the Annual Meeting by conference call, 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 our independent registered public accounting firm. The Audit Committee has selected Moss Adams as our independent registered public accounting firm for the year ending December 31, 2021.

The Audit Committee pre-approves all audit and non-audit services performed by our 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.

INDEPENDENT AUDITORS

Audit Fees

We paid Moss Adams audit fees of $260,108 and $272,840 during the years ended December 31, 2020 and 2019, respectively. These audit fees related to professional services rendered in connection with the audit of our annual consolidated financial statements, the reviews of the consolidated financial statements included in each of our 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 2020 or 2019 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 2020 or 2019 for tax compliance, tax advice or tax planning services rendered to us by Moss Adams.

All Other Fees

We paid Moss Adams $38,143 and $40,573 during 2020 and 2019, respectively, for fees associated with SOC Type-2 examinations and other administrative fees.

AUDIT COMMITTEE REPORT

In connection with the financial statements of Bsquare Corporation (the "Company") for the fiscal year ended December 31, 2020, the Audit Committee of the Board of Directors of the Company (the "Board") has:

- Reviewed and discussed the audited financial statements with management of the Company;
- Discussed with the Company independent registered public accounting firm, Moss Adams LLP (the "Firm"), the matters required to be discussed by applicable auditing standards; and
- Received the written disclosures and the letter from the Firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the Firm's communications with the Audit Committee concerning independence and discussed with the Firm its independence.

Based upon these reviews and discussions, the Audit Committee recommended to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 for filing with the SEC.

Submitted by the Audit Committee:

Robert J. Chamberlain, Chair

Andrew S.G. Harries

Mary Jesse

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 RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF MOSS ADAMS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2021.

PROPOSAL NO. 4

APPROVE ADOPTION OF 2021 EQUITY INCENTIVE PLAN

At the Annual Meeting, shareholders will be asked to approve the 2021 Equity Incentive Plan (the "2021 Plan"). Our Board adopted the 2021 Plan on April 13, 2021, subject to and effective upon its approval by our shareholders. The 2021 Plan is intended to replace our Current Stock Plan. If our shareholders approve the 2021 Plan, it will become effective on the day of the Annual Meeting, and no further awards will be granted under the Current Stock Plan, which will be terminated.

Essential to Provide Incentives

We operate in a challenging marketplace in which our success depends to a great extent on our ability to attract and retain employees, directors and other service providers of the highest caliber. One of the tools our Board regards as essential in addressing these human resource challenges is a competitive equity incentive program. Our employee equity incentive program provides a range of incentive tools and sufficient flexibility to permit our Compensation Committee to implement them in ways that will make the most effective use of the shares our shareholders authorize for incentive purposes. We intend to use these incentives to attract new key employees and to continue to retain existing key employees, directors and other service providers for the long-term benefit of Bsquare and its shareholders.

Share Authorization and Dilution

The 2021 Plan authorizes our Compensation Committee to provide incentive compensation in the form of stock options, stock appreciation rights, restricted stock and stock units, performance shares and units and other stock-based awards. Under the 2021 Plan, we will be authorized to issue incentive compensation convertible into up to 1,200,000 shares of common stock (the "Authorized Share Amount"). The Authorized Share Amount is intended to approximate the sum of the 954,355 shares remaining available for issuance under the Current Stock Plan (previously approved by shareholders) and the 287,770 shares remaining available for future issuance under the Inducement Plan (previously disclosed to shareholders), each as of December 31, 2020. Accordingly, the Authorized Share Amount reflects a share reserve that is *less than* the previously disclosed amounts that we believe shareholders have been referencing when assessing dilution.

Key Features of the 2021 Plan

The 2021 Plan contains a number of provisions that we believe are consistent with best practices in equity compensation and which protect the interests of our shareholders:

- *Fixed plan term*. The 2021 Plan has a fixed term of ten (10) years.
- *No evergreen authorization*. The 2021 Plan does not have an evergreen provision, which would have permitted an annual increase in the number of shares authorized for issuance without further shareholder approval.
- *No liberal share recycling*. The number of shares remaining available for grant under the 2021 Plan is reduced by the gross number of shares subject to options and stock appreciation rights settled on a net basis and by any shares withheld for taxes in connection with the exercise of options or stock appreciation rights or the vesting or settlement of full value awards.
- *No recycling of open market repurchases.* Any shares of our common stock we repurchase in the open market with option exercise proceeds will not increase the maximum number of shares that may be issued under the 2021 Plan.
- *Non-employee director award limit*. The aggregate grant date fair value of awards granted and cash compensation that may be earned by any nonemployee member of our Board in a fiscal year is limited.
- *No discounted options or stock appreciation rights*. No discount from fair market value is permitted in setting the exercise price of stock options and stock appreciation rights.
- *Prohibition of repricing*. The 2021 Plan prohibits the repricing of stock options and stock appreciation rights without the approval of our shareholders.
- *Minimum vesting*. The 2021 Plan requires each award to have a minimum vesting period of one year, except for 5% of the aggregate number of shares authorized for issuance under the 2021 Plan or any vesting accelerated upon death, disability or a change in control of Bsquare.
- *Performance-based awards*. Performance share and performance unit awards require the achievement of pre-established goals. The 2021 Plan establishes a list of measures of business and financial performance from which our Compensation Committee may construct predetermined performance goals that must be met for an award to vest, although our Compensation Committee may choose to construct performance goals using alternative metrics and has the discretion to adjust awards.

- *No tax gross-ups*. The 2021 Plan does not provide for any tax gross-ups.

- *Limitations on dividends and dividend equivalents*. No dividends may be paid in connection with stock options or stock appreciation rights. Any dividends or dividend equivalents payable in connection with a full value award will be subject to the same restrictions as the underlying award and will not be paid until and unless such award vests.

The above description of key features is a summary only and is qualified in its entirety by reference to the complete text of the 2021 Plan, which is attached to this Proxy Statement as Appendix A and which we encourage shareholders to read in its entirety.

Our Board believes that the 2021 Plan will serve a critical role in attracting and retaining the high caliber employees, consultants and directors essential to our success and in motivating these individuals to strive to meet our goals. Therefore, our Board urges you to vote to approve the adoption of the 2021 Plan.

Summary of the 2021 Plan

The following summary of the 2021 Plan is qualified in its entirety by the specific language of the 2021 Plan, a copy of which is attached to this proxy statement as Appendix A.

General. The purpose of the 2021 Plan is to advance our interests and the interests of our shareholders by providing an incentive program that will enable us to attract and retain employees, consultants and directors and to provide them with an equity interest in the growth and profitability of our Company. These incentives are provided through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other stock-based awards.

Authorized Shares. The maximum aggregate number of shares authorized for issuance under the 2021 Plan is 1,200,000 shares. If our shareholders approve adoption of the 2021 Plan, our Board will immediately terminate the Current Stock Plan, and any of these shares that are not then subject to outstanding awards will cease to be available for grant under the Current Stock Plan.

Share Counting. Each share made subject to an award will reduce the number of shares remaining available for grant under the 2021 Plan by one (1) share. If any award granted under the 2021 Plan expires or otherwise terminates for any reason without having been exercised or settled in full, or if shares subject to forfeiture or repurchase are forfeited or repurchased by the Company for not more than the participant's purchase price, any such shares reacquired or subject to a terminated award will again become available for issuance under the 2021 Plan. Shares will not be treated as having been issued under the 2021 Plan and will therefore not reduce the number of shares available for issuance to the extent an award is settled in cash. Shares that are withheld or that are tendered in payment of the exercise price of an option will not be made available for new awards under the 2021 Plan. Shares purchased in the open market with option exercise proceeds will not increase the maximum number of shares that may be issued under the 2021 Plan. Shares withheld or reacquired by the Company in satisfaction of a tax withholding obligation in connection with the vesting or settlement of any full value award or the exercise of options or stock appreciation rights will not be made available for new awards under the 2021 Plan. Upon the exercise of a stock appreciation right or net-exercise of an option, the number of shares available under the 2021 Plan will be reduced by the gross number of shares for which the award is exercised.

Adjustments for Capital Structure Changes. Appropriate and proportionate adjustments will be made to the number of shares authorized under the 2021 Plan, to the numerical limits on certain types of awards described below, and to outstanding awards in the event of any change in our common stock through merger, consolidation, reorganization, reincorporation, recapitalization, reclassification, stock dividend, stock split, reverse stock split, split-up, split-off, spin-off, combination of shares, exchange of shares or similar change in our capital structure, or if we make a distribution to our shareholders in a form other than common stock (excluding regular, periodic cash dividends) that has a material effect on the fair market value of our common stock. In such circumstances, our Compensation Committee also has the discretion under the 2021 Plan to adjust other terms of outstanding awards as it deems appropriate.

Nonemployee Director Award Limits. No non-employee director may be granted in any fiscal year awards under the 2021 Plan having an aggregate grant date fair value that, when taken together with any cash fees paid to the director in the same fiscal year, exceeds $200,000. Grant date fair value will be determined for this purpose in accordance with applicable financial accounting principles.

Other Award Limits. To comply with applicable tax rules, the 2021 Plan also limits to $100,000 the aggregate grant date fair market value of shares that may be issued upon the exercise of incentive stock options granted under the 2021 Plan.

Administration. The 2021 Plan generally will be administered by our Compensation Committee, although our Board retains the right to appoint another of its committees to administer the 2021 Plan or to administer the 2021 Plan directly. Subject to the provisions of the 2021 Plan, our Compensation Committee determines in its discretion the persons to whom and the times at which awards are granted, the types and sizes of awards, and all of their terms and conditions. Our Compensation Committee may, subject to certain limitations on the exercise of its discretion provided by the 2021 Plan (including in connection with a change in control of Bsquare), amend, cancel or renew any award, waive any restrictions or conditions applicable to any award, and accelerate, continue, extend or defer the vesting of any award.

The 2021 Plan provides, subject to certain limitations, for indemnification by us of members of the Compensation Committee and the Executive Officer (as defined in the 2021 Plan) against all reasonable expenses, including attorneys' fees, incurred in connection with

any legal action arising from such person's action or failure to act in administering the 2021 Plan. All awards granted under the 2021 Plan will be evidenced by a written or digitally signed agreement between us and the participant specifying the terms and conditions of the award, consistent with the requirements of the 2021 Plan. Our Compensation Committee will interpret the 2021 Plan and awards granted thereunder, and all determinations of our Compensation Committee generally will be final and binding on all persons having an interest in the 2021 Plan or any award.

Prohibition of Option and SAR Repricing. The 2021 Plan expressly provides that, without the approval of a majority of the votes cast in person or by proxy at a meeting of our shareholders, our Compensation Committee may not provide for any of the following with respect to underwater options or stock appreciation rights: (a) the cancellation of outstanding options or stock appreciation rights having exercise prices per share greater than the then fair market value of a share of common stock ("Underwater Awards") and the grant in substitution therefor of new options or stock appreciation rights having a lower exercise price, awards other than options or stock appreciation rights or payments in cash, or (b) the amendment of outstanding Underwater Awards to reduce the exercise price thereof.

Minimum Vesting. No more than five percent (5%) of the aggregate number of shares authorized under the 2021 Plan may be issued pursuant to awards that provide for service-based vesting over a period of less than one year or performance-based vesting over a performance period of less than one year. This minimum vesting requirement will not prohibit our Compensation Committee from accelerating vesting in connection with a participant's death or disability or in connection with a change in control of the Company, as limited by the terms of the 2021 Plan.

Eligibility. Awards may be granted to employees, directors and consultants of the Company or any present or future parent or subsidiary corporation or other affiliated entity of the Company. Incentive stock options may be granted only to employees who, as of the time of grant, are employees of the Company or any parent or subsidiary corporation of the Company. As of December 31, 2020, we had approximately 70 employees, including two executive officers and six non-employee directors who would be eligible under the 2021 Plan.

Stock Options. Our Compensation Committee may grant nonstatutory stock options, incentive stock options within the meaning of Section 422 of the Code, or any combination of these. The exercise price of each option may not be less than the fair market value of a share of our common stock on the date of grant. However, any incentive stock option granted to a person who at the time of grant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company (a "10% Shareholder") must have an exercise price equal to at least 110% of the fair market value of a share of common stock on the date of grant.

The 2021 Plan provides that the option exercise price may be paid in cash, by check, or cash equivalent; by means of a broker-assisted cashless exercise; by means of a net-exercise procedure; to the extent legally permitted, by tender to the Company of shares of common stock owned by the participant having a fair market value not less than the exercise price; by such other lawful consideration as approved by our Compensation Committee; or by any combination of these. Nevertheless, our Compensation Committee may restrict the forms of payment permitted in connection with any option grant. No option may be exercised unless the participant has made adequate provision for federal, state, local and foreign taxes, if any, relating to the exercise of the option, including, if permitted or required by the Company, through the participant's surrender of a portion of the option shares to the Company.

Options will become vested and exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by our Compensation Committee, subject to the minimum vesting requirements described above. The maximum term of any option granted under the 2021 Plan is ten years, provided that an incentive stock option granted to a 10% Shareholder must have a term not exceeding five years. Unless otherwise permitted by our Compensation Committee, an option generally will remain exercisable for three months following the participant's termination of service, provided that if service terminates as a result of the participant's death or disability, the option generally will remain exercisable for 12 months, but in any event the option must be exercised no later than its expiration date.

Options are nontransferable by the participant other than by will or by the laws of descent and distribution, and are exercisable during the participant's lifetime only by the participant. However, an option may be assigned or transferred to certain family members or trusts for their benefit to the extent permitted by our Compensation Committee and, in the case of an incentive stock option, only to the extent that the transfer will not terminate its tax qualification. No option may be transferred to a third-party financial institution for value.

Stock Appreciation Rights. Our Compensation Committee may grant stock appreciation rights either in tandem with a related option (a "Tandem SAR") or on a free-standing basis (without regard to or in addition to the grant of an Option) (a "Freestanding SAR"). A Tandem SAR requires the option holder to elect between the exercise of the underlying option for shares of common stock or the surrender of the option and the exercise of the related stock appreciation right. A Tandem SAR is exercisable only at the time and only to the extent that the related stock option is exercisable, while a Freestanding SAR is exercisable at such times or upon such events and subject to such terms, conditions, performance criteria or restrictions as specified by our Compensation Committee. The exercise price of each stock appreciation right may not be less than the fair market value of a share of our common stock on the date of grant.

Upon the exercise of any stock appreciation right, the participant is entitled to receive an amount equal to the excess of the fair market value of the underlying shares of common stock as to which the right is exercised over the aggregate exercise price for such shares. Payment of this amount upon the exercise of a Tandem SAR may be made only in shares of common stock whose fair market value on the exercise date equals the payment amount. At our Compensation Committee's discretion, payment of this amount upon the exercise of a

Freestanding SAR may be made in cash or shares of common stock. The maximum term of any stock appreciation right granted under the 2021 Plan is ten (10) years.

Stock appreciation rights are generally nontransferable by the participant other than by will or by the laws of descent and distribution, and are generally exercisable during the participant's lifetime only by the participant. If permitted by our Compensation Committee, a Tandem SAR related to a nonstatutory stock option and a Freestanding SAR may be assigned or transferred to certain family members or trusts for their benefit to the extent permitted by our Compensation Committee. Other terms of stock appreciation rights are generally similar to the terms of comparable stock options.

Restricted Stock Awards. Our Compensation Committee may grant restricted stock awards under the 2021 Plan in the form of a restricted stock purchase right, giving a participant an immediate right to purchase common stock, or in the form of a restricted stock bonus, in which stock is issued in consideration for services to the Company rendered by the participant. Our Compensation Committee determines the purchase price payable under restricted stock purchase awards, which may be less than the then current fair market value of our common stock. Restricted stock awards may be subject to vesting conditions based on such service or performance criteria as our Compensation Committee specifies, including the attainment of one or more performance goals similar to those described below in connection with performance awards. Shares acquired pursuant to a restricted stock award may not be transferred by the participant until vested. Unless otherwise provided by our Compensation Committee, a participant will forfeit any shares of restricted stock as to which the vesting restrictions have not lapsed prior to the participant's termination of service. Participants holding restricted stock will have the right to vote the shares and to receive any dividends or other distributions paid in cash or shares, subject to the same vesting conditions as the original award.

Restricted Stock Units. Our Compensation Committee may grant restricted stock units under the 2021 Plan, which represent rights to receive shares of our common stock at a future date determined in accordance with the participant's award agreement. No monetary payment is required for receipt of restricted stock units or the shares issued in settlement of the award, the consideration for which is furnished in the form of the participant's services to the Company. Our Compensation Committee may grant restricted stock unit awards subject to the attainment of one or more performance goals similar to those described below in connection with performance awards, or may make the awards subject to vesting conditions similar to those applicable to restricted stock awards. Restricted stock units may not be transferred by the participant. Unless otherwise provided by our Compensation Committee, a participant will forfeit any restricted stock units which have not vested prior to the participant's termination of service. Participants have no voting rights or rights to receive cash dividends with respect to restricted stock unit awards until shares of common stock are issued in settlement of such awards. However, our Compensation Committee may grant restricted stock units that entitle their holders to dividend equivalent rights, which are rights to receive cash or additional restricted stock units whose value is equal to any cash dividends the Company pays. Dividend equivalent rights will be subject to the same vesting conditions and settlement terms as the original award.

Change of Control Provisions. In the event of an "Approved Transaction" or "Control Purchase", each as defined in the 2021 Plan, awards under the 2021 Plan may be assumed, continued or substituted. In the event that awards are not assumed, continued or substituted, except as otherwise provided by the Compensation Committee in the award agreement, following consummation of an Approved Transaction or Control Purchase, and until such option is terminated, any vested portion of options that are not exercised shall remain exercisable, and any unvested portions of any options shall remain in effect and continue to vest in accordance with the vesting schedule specified at the time of grant, and upon such vesting shall become exercisable and restrictions relating to the attainment of performance goals may become earned and vested and the performance criteria may be deemed achieved or fulfilled in the Compensation Committee's discretion. In addition, Compensation Committee shall also have the option to make or provide for a payment, in cash or in kind, to grantees holding other awards in an amount equal to the per share cash consideration multiplied by the number of vested shares under such awards.

Awards Subject to Section 409A of the Code. Certain awards granted under the 2021 Plan may be deemed to constitute "deferred compensation" within the meaning of Section 409A of the Code, which provides rules regarding the taxation of nonqualified deferred compensation plans, and the regulations and other administrative guidance issued pursuant to Section 409A. Any such awards will be required to comply with the requirements of Section 409A. Notwithstanding any provision of the 2021 Plan to the contrary, our Compensation Committee is authorized, in its sole discretion and without the consent of any participant, to amend the 2021 Plan or any award agreement as it deems necessary or advisable to comply with Section 409A.

Amendment, Suspension or Termination. The 2021 Plan will continue in effect until its termination by our Board, provided that no awards may be granted under the 2021 Plan following the tenth (10th) anniversary of the 2021 Plan's effective date, which will be the date on which it is approved by our shareholders. Our Board may amend, suspend or terminate the 2021 Plan at any time, provided that no amendment may be made without shareholder approval that would increase the maximum aggregate number of shares of stock authorized for issuance under the 2021 Plan, change the class of persons eligible to receive incentive stock options or require shareholder approval under any applicable law or the rules of any stock exchange on which Bsquare's shares are then listed.

Summary of U.S. Federal Income Tax Consequences

The following summary is intended only as a general guide to the U.S. federal income tax consequences of participation in the 2021 Plan and does not attempt to describe all possible federal or other tax consequences of such participation or tax consequences based on particular circumstances.

Incentive Stock Options. A participant recognizes no taxable income for regular income tax purposes as a result of the grant or exercise of an incentive stock option qualifying under Section 422 of the Code. Participants who neither dispose of their shares within two years following the date the option was granted nor within one year following the exercise of the option will normally recognize a capital gain or loss upon the sale of the shares equal to the difference, if any, between the sale price and the purchase price of the shares. If a participant satisfies such holding periods upon a sale of the shares, we will not be entitled to any deduction for federal income tax purposes. If a participant disposes of shares within two years after the date of grant or within one year after the date of exercise (a "disqualifying disposition"), the difference between the fair market value of the shares on the option exercise date and the exercise price (not to exceed the gain realized on the sale if the disposition is a transaction with respect to which a loss, if sustained, would be recognized) will be taxed as ordinary income at the time of disposition. Any gain in excess of that amount will be a capital gain. If a loss is recognized, there will be no ordinary income, and such loss will be a capital loss. Any ordinary income recognized by the participant upon the disqualifying disposition of the shares generally should be deductible by us for federal income tax purposes, except to the extent such deduction is limited by applicable provisions of the Code.

In general, the difference between the option exercise price and the fair market value of the shares on the date of exercise of an incentive stock option is treated as an adjustment in computing the participant's alternative minimum taxable income and may be subject to an alternative minimum tax which is paid if such tax exceeds the regular tax for the year. Special rules may apply with respect to certain subsequent sales of the shares in a disqualifying disposition, certain basis adjustments for purposes of computing the alternative minimum taxable income on a subsequent sale of the shares and certain tax credits which may arise with respect to participants subject to the alternative minimum tax.

Nonstatutory Stock Options. Options not designated or qualifying as incentive stock options are nonstatutory stock options having no special tax status. A participant generally recognizes no taxable income upon receipt of such an option. Upon exercising a nonstatutory stock option, the participant normally recognizes ordinary income equal to the difference between the exercise price paid and the fair market value of the shares on the date when the option is exercised. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of stock acquired by the exercise of a nonstatutory stock option, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the exercise date, will be taxed as capital gain or loss. We generally should be entitled to a tax deduction equal to the amount of ordinary income recognized by the participant as a result of the exercise of a nonstatutory stock option, except to the extent such deduction is limited by applicable provisions of the Code.

Stock Appreciation Rights. A participant recognizes no taxable income upon the receipt of a stock appreciation right. Upon the exercise of a stock appreciation right, the participant generally will recognize ordinary income in an amount equal to the excess of the fair market value of the underlying shares of common stock on the exercise date over the exercise price. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant in connection with the exercise of the stock appreciation right, except to the extent such deduction is limited by applicable provisions of the Code.

Restricted Stock. A participant acquiring restricted stock generally will recognize ordinary income equal to the excess of the fair market value of the shares on the "determination date" over the price paid, if any, for such shares. The "determination date" is the date on which the participant acquires the shares unless the shares are subject to a substantial risk of forfeiture and are not transferable, in which case the determination date is the earlier of (i) the date on which the shares become transferable or (ii) the date on which the shares are no longer subject to a substantial risk of forfeiture (e.g., when they become vested). If the determination date follows the date on which the participant acquires the shares, the participant may elect, pursuant to Section 83(b) of the Code, to designate the date of acquisition as the determination date by filing an election with the Internal Revenue Service no later than 30 days after the date on which the shares are acquired. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. Upon the sale of shares acquired pursuant to a restricted stock award, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the determination date, will be taxed as capital gain or loss. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

Restricted Stock Unit, Performance and Other Stock-Based Awards. A participant generally will recognize no income upon the receipt of a restricted stock unit, performance share, performance unit or other stock-based award. Upon the settlement of such awards, participants normally will recognize ordinary income in the year of settlement in an amount equal to the fair market value of any substantially vested shares of stock received. If the participant is an employee, such ordinary income generally is subject to withholding of income and employment taxes. If the participant receives shares of restricted stock, the participant generally will be taxed in the same manner as described above under "Restricted Stock." Upon the sale of any shares received, any gain or loss, based on the difference between the sale price and the fair market value of the shares on the determination date (as defined above under "Restricted Stock"), will be taxed as capital gain or loss. We generally should be entitled to a deduction equal to the amount of ordinary income recognized by the participant on the determination date, except to the extent such deduction is limited by applicable provisions of the Code.

New 2021 Plan Benefits

No awards will be granted under the 2021 Plan prior to its approval by our shareholders. All awards will be granted at the discretion of our Compensation Committee, and, accordingly, are not yet determinable.

Vote Required

Approval of this proposal requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote on this proposal. If you hold your shares in your own name and abstain from voting on this matter, your abstention will have the same effect as a negative vote. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have authority to vote your shares. Broker non-votes will have no effect on the outcome of this vote.

Our Board believes that the proposed adoption of the 2021 Plan is in the best interests of the Company and its shareholders for the reasons stated above.

OUR BOARD RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE ADOPTION OF THE 2021 PLAN.

PROPOSAL NO. 5(A)

APPROVE AMENDED AND RESTATED ARTICLES OF INCORPORATION

We are asking our shareholders to approve amended and restated articles of incorporation in the form attached to this proxy statement as Appendix B (the "Proposed Articles). Our current articles of incorporation (the "Articles") were most recently amended in October 2005 and have not been comprehensively revised since October 1999. Since that time, both Washington law and public company corporate governance matters have changed in notable ways. We believe adopting the Proposed Articles will modernize our corporate governance for technological developments, current meeting practices, Washington statutory updates, and other matters.

SEC interpretations require that we "unbundle" each provision amending our current Articles that may substantively affect the rights of shareholders or that our management has reason to believe, even if the provision does not substantively affect shareholder rights, is nevertheless one on which shareholders could reasonably be expected to wish to express a view separately. Accordingly, we are separately presenting the following subproposals:

- **Proposal No. 5(b)**: The Proposed Articles would eliminate the ability in the current Articles for holders of 25% of the votes entitled to be cast on an issue to call a special meeting.

- **Proposal No. 5(c)**: The Proposed Articles would eliminate the fixed size of the Board of seven directors, allowing the Board to determine its size.

- **Proposal No. 5(d)**: The Proposed Articles would eliminate the ability of shareholders to remove directors without cause, thereby requiring shareholders to remove directors (or the entire Board) only for cause.

- **Proposal No. 5(e)**: The Proposed Articles would require a two-thirds majority of shareholders to amend provisions in the Proposed Articles relating to special meetings, our Board, indemnification, this supermajority provision, or the bylaws.

- **Proposal No. 5(f)**: The Proposed Articles would establish the state courts in King County, Washington, or federal courts in the Western District of Washington, as the sole and exclusive forum for certain corporate and securities claims.

Our Board unanimously approved and declared advisable, and unanimously recommends that shareholders approve, Proposal Nos. 5(a)-5(f).

The following discussion does not purport to be complete or to summarize all the ways the comprehensively amended and restated Proposed Articles would revise aspects of the Company's governance under the current Articles. For complete information, you should read the full text of the Proposed Articles attached to this proxy statement as Appendix B.

In recommending the Proposed Articles, the Board's primary motivation was to update the Proposed Articles comprehensively due to two decades of corporate and market developments, including to align with current market practices for emerging growth companies. Secondarily, the Board desired to ensure the Articles do not make it vulnerable to non-negotiated takeover efforts, particularly during periods of economic uncertainty and market volatility. We are a relatively small company and the cost and distraction of dealing with takeover efforts that our Board views as inadequate or otherwise not in the best interests of our shareholders could have a significantly negative impact on our ability pursue our business strategies. The Board has no plans or proposals to adopt other provisions or enter into other arrangements that may have material anti-takeover consequences. The Board is not aware of any efforts by any party to accumulate the Company's securities or otherwise obtain control of the Company by means of a merger, tender offer, solicitation in opposition or otherwise. We are also not a party to any litigation asserting corporate or securities claims.

Summary of Proposed Articles

The following summarizes the most notable changes the Proposed Articles would make to the current Articles.

- **Corporate Name**: The Company's official corporate name is currently spelled "BSQUARE Corporation" with the first word in all capital letters. The Company regards this as a less intuitive spelling and management prefers the spelling "Bsquare" (capital case) for use in documents requiring the official legal name.

- **Ability to Call Special Meetings**: The Company's current Articles permit the Chairman of the Board, the President, the Board or holders of 25% of the votes entitled to be cast on an issue to call a special meeting of our shareholders. The Proposed Articles would allow special meetings to be called by the Board, the Chairperson of the Board, the Chief Executive Officer or the President. In practice, we believe it is highly unlikely that holders of 25% of our shares would be unable to convince the Board, the Chairperson of the Board, the Chief Executive Officer or the President to call a special meeting for business that is clearly in the best interest of our company and its shareholders, and that other more productive avenues exist for shareholders to voice concerns or influence leadership or strategic matters.

- **Size of Board**: The Articles fix the current size of the Board at seven directors. In line with common practice, the Proposed Articles would allow the Board flexibility to determine Board size. This change will facilitate, for example, our compliance with a Washington statutory requirement adopted in 2020 for public companies of certain size thresholds to have boards that meet gender diversity requirements, or other developments that might impact the size of our Board.

- **Removal of Directors**: The current Articles permit shareholders to remove a director with or without cause. The Proposed Articles would require cause for removal of a director or the entire Board. In practice, we believe it is highly unlikely that a majority of shareholders would remove a director other than in an unwelcome effort to change control of the company that fails to elicit Board support.

- **Indemnification**: The current Articles contain detailed indemnification provisions that are substantially similar to the Washington statutory framework. The Proposed Articles would streamline and eliminate these provisions, resulting in increased reliance on statutory provisions. We regard these changes, while numerous, as largely stylistic.

- **Supermajority Voting**: The current Articles do not impose any super-majority voting requirements for amending the Articles, which may leave the Company vulnerable to unwelcome revisions regarding special meetings, our Board, indemnification, or the bylaws.

- **Exclusive Forum**: The Proposed Articles would establish State courts in King County, Washington, or federal courts in the Western District of Washington, as the sole and exclusive forum for certain corporate and securities claims. We believe that an exclusive forum for litigation can avoid "forum shopping," limit the distraction and expense of litigation, and ensure a more efficient resolution of disputes.

The foregoing summary is qualified in its entirety by the specific language of the Proposed Articles, which is set forth in Appendix B to this proxy statement. In addition, a chart comparing the current Articles to the Proposed Articles is contained in Appendix C to this proxy statement, which is incorporated herein by reference.

Rights of Appraisal

Under Washington law, there are no appraisal rights with respect to the Proposed Articles, including the proposed changes in Proposal Nos. 5(b)-5(f), to be voted upon at the Annual Meeting.

Vote Required

Approval of the Proposed Articles requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote on this matter. If you hold your shares in your own name and abstain from voting on this proposal, your abstention will have the same effect as a negative vote on the proposal. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have authority to vote your shares. Broker non-votes will have no effect on the outcome of this vote.

Each of the subproposals comprising Proposal No. 5 is an element of a comprehensive updating of the Company's governance arrangements. However, none of the subproposals comprising Proposal No. 5 is cross-conditioned upon any of the other subproposals. Each of the proposed changes discussed below in Proposal Nos. 5(b)-5(f) is being voted on separately by our shareholders. If our shareholders approve some, but not all, of Proposal Nos. 5(b)-5(f), the Proposed Articles will only be amended and restated to reflect the amendments approved by our shareholders, and appropriate changes to the form of the Proposed Articles attached as Appendix B to this proxy statement would be made prior to its filing with the Washington Secretary of State.

OUR BOARD RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL AND ADOPTION OF THE PROPOSED ARTICLES.

PROPOSAL NO. 5(B)

ELIMINATE SHAREHOLDER ABILITY TO CALL SPECIAL MEETINGS

As part of our comprehensive updates to our governance arrangements, we are asking our shareholders to eliminate the ability of holders of 25% of the votes entitled to be cast on an issue to call a special meeting of our shareholders. Although our current Articles contain this provision, we believe many companies do not have this provision, in part because it is highly unlikely in practice that such a significant portion of shareholders would be unable to propose business at an annual shareholder meeting or convince the Board, the Chairperson of the Board, the Chief Executive Officer or the President to call a special meeting when their proposed business is clearly in the best interest of our company and its shareholders. In addition, calling a special meeting of shareholders would be an expensive undertaking, requiring time from our Board and management, legal and other professional services, printing and mailing costs, and other direct and indirect expenses. We believe that shareholders who have business that is in the best interests of shareholders have less distracting and expensive, and more productive, avenues for voicing concerns or influencing leadership or strategic matters including communicating with our management or Chairman of the Board or participating in our annual meetings.

Vote Required

Approval of the Proposed Articles, including Proposal No. 5(b), requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote on this matter. If you hold your shares in your own name and abstain from voting on this proposal, your abstention will have the same effect as a negative vote on the proposal. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have authority to vote your shares. Broker non-votes will have no effect on the outcome of this vote.

Each of the subproposals comprising Proposal No. 5 is an element of a comprehensive updating of the Company's governance arrangements. However, none of the subproposals comprising Proposal No. 5 is cross-conditioned upon any of the other subproposals. Each of the proposed changes discussed in Proposal Nos. 5(b)-5(f) is being voted on separately by our shareholders. If our shareholders approve some, but not all, of Proposal Nos. 5(b)-5(f), the Proposed Articles will only be amended and restated to reflect the amendments approved by our shareholders, and appropriate changes to the form of the Proposed Articles attached as Appendix B to this proxy statement would be made prior to its filing with the Washington Secretary of State.

OUR BOARD RECOMMENDS THAT YOU VOTE "FOR" THE ELIMINATION OF SHAREHOLDER ABILITY TO CALL SPECIAL MEETINGS.

PROPOSAL NO. 5(C)

ELIMINATE FIXED SIZE OF BOARD, ALLOWING BOARD TO DETERMINE ITS SIZE

As part of our comprehensive updates to our governance arrangements, we are asking our shareholders to eliminate the fixed size or our Board at seven directors. The Proposed Articles would allow the Board flexibility to determine Board size pursuant to our Bylaws, by adopting resolutions fixing its size. We believe this is a common method for determining the size of the Board. We also believe this change will provide us flexibility to deal with developments that might impact the size of our Board. For example, in 2020 Washington enacted statutory changes requiring certain public companies to maintain, for at least 270 days of the fiscal year, boards comprised at least 25% of individuals who self-identify as women. While this provision is not effective until January 1, 2022 and will not apply to a "smaller reporting company" like us, if we lose that status in 2022 we will need to expand our board size to add women to our Board or convince current directors who are men (and whom we believe are qualified to serve on our Board) to resign. We believe having it is prudent for the Board to have flexibility to address developments bearing on the size of the Board.

Vote Required

Approval of the Proposed Articles, including Proposal No. 5(c), requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote on this matter. If you hold your shares in your own name and abstain from voting on this proposal, your abstention will have the same effect as a negative vote on the proposal. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have authority to vote your shares. Broker non-votes will have no effect on the outcome of this vote.

Each of the subproposals comprising Proposal No. 5 is an element of a comprehensive updating of the Company's governance arrangements. However, none of the subproposals comprising Proposal No. 5 is cross-conditioned upon any of the other subproposals. Each of the proposed changes discussed in Proposal Nos. 5(b)-5(f) is being voted on separately by our shareholders. If our shareholders approve some, but not all, of Proposal Nos. 5(b)-5(f), the Proposed Articles will only be amended and restated to reflect the amendments approved by our shareholders, and appropriate changes to the form of the Proposed Articles attached as Appendix B to this proxy statement would be made prior to its filing with the Washington Secretary of State.

OUR BOARD RECOMMENDS THAT YOU VOTE "FOR" THE ELIMINATION OF THE FIXED SIZE OF THE BOARD, ALLOWING THE BOARD TO DETERMINE ITS SIZE.

PROPOSAL NO. 5(D)

ELIMINATE SHAREHOLDER ABILITY TO REMOVE DIRECTORS WITHOUT CAUSE

As part of our comprehensive updates to our governance arrangements, we are asking our shareholders to eliminate the ability to remove directors without cause. Shareholders would still be able to remove directors for cause. Removing directors without cause can be unfair to duly elected fiduciaries of our Company. We believe this is a common approach. In practice, we believe it is highly unlikely that a majority of shareholders would remove a director without cause other than in an unwelcome effort to change control of the company that fails to elicit Board support for a similar outcome.

Vote Required

Approval of the Proposed Articles, including Proposal No. 5(d), requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote on this matter. If you hold your shares in your own name and abstain from voting on this proposal, your abstention will have the same effect as a negative vote on the proposal. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have authority to vote your shares. Broker non-votes will have no effect on the outcome of this vote.

Each of the subproposals comprising Proposal No. 5 is an element of a comprehensive updating of the Company's governance arrangements. However, none of the subproposals comprising Proposal No. 5 is cross-conditioned upon any of the other subproposals. Each of the proposed changes discussed in Proposal Nos. 5(b)-5(f) is being voted on separately by our shareholders. If our shareholders approve some, but not all, of Proposal Nos. 5(b)-5(f), the Proposed Articles will only be amended and restated to reflect the amendments approved by our shareholders, and appropriate changes to the form of the Proposed Articles attached as Appendix B to this proxy statement would be made prior to its filing with the Washington Secretary of State.

OUR BOARD RECOMMENDS THAT YOU VOTE "FOR" THE ELIMINATION OF SHAREHOLDER ABILITY TO REMOVE DIRECTORS WITHOUT CAUSE.

PROPOSAL NO. 5(E)

REQUIRE TWO-THIRDS MAJORITY OF SHAREHOLDERS TO AMEND SPECIFIED PROVISIONS IN ARTICLES

As part of our comprehensive updates to our governance arrangements, we are asking our shareholders to require a two-thirds majority to amend specified provisions in our Articles. This super-majority voting provision which requires the affirmative vote of not less than two-thirds of all shareholder votes entitled to be cast to amend of repeal provisions and sections of the Articles, including the section relating to calling special meetings of shareholders, the article relating to directors, the article relating to indemnification, the section relating to supermajority voting, and the article relating to the bylaws. This provision effectively permits minority shareholders who are opposed to an amendment to block it, ensuring that certain fundamental matters that can impact control of our Company enjoy a broad consensus among long-term investors. Without this protection, our Company may be vulnerable to unwelcome revisions advanced by short-term investors seeking to gain control on terms our Board deems inadequate.

Vote Required

Approval of the Proposed Articles, including Proposal No. 5(e), requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote on this matter. If you hold your shares in your own name and abstain from voting on this proposal, your abstention will have the same effect as a negative vote on the proposal. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have authority to vote your shares. Broker non-votes will have no effect on the outcome of this vote.

Each of the subproposals comprising Proposal No. 5 is an element of a comprehensive updating of the Company's governance arrangements. However, none of the subproposals comprising Proposal No. 5 is cross-conditioned upon any of the other subproposals. Each of the proposed changes discussed in Proposal Nos. 5(b)-5(f) is being voted on separately by our shareholders. If our shareholders approve some, but not all, of Proposal Nos. 5(b)-5(f), the Proposed Articles will only be amended and restated to reflect the amendments approved by our shareholders, and appropriate changes to the form of the Proposed Articles attached as Appendix B to this proxy statement would be made prior to its filing with the Washington Secretary of State.

OUR BOARD RECOMMENDS THAT YOU VOTE "FOR" THE REQUIREMENT OF TWO-THIRDS MAJORITY OF SHAREHOLDERS TO AMEND SPECIFIED PROVISIONS THE PROPOSED ARTICLES.

PROPOSAL NO. 5(F)

ESTABLISH EXCLUSIVE FORUM IN WASHINGTON FOR CERTAIN CORPORATE AND SECURITIES CLAIMS

As part of our comprehensive updates to our governance arrangements, we are asking our shareholders to establish the state courts in King County, Washington or federal courts in the Western District of Washington, as the sole and exclusive forum for certain corporate and securities claims. These include any proceeding (i) asserting a claim based on a violation of a duty under the laws of the State of Washington by any of our current or former directors, officers, or shareholders in such capacity, (ii) commenced or maintained in the right of our Company, (iii) asserting a claim arising pursuant to any provision of the Washington Business Corporation Act, the Articles or our Bylaws, or (iv) asserting a claim concerning our internal affairs that is not included in clause (i) through (iii) above. The provision does not apply to suits brought to enforce a duty or liability created by the Securities Exchange Act of 1934, as amended, or any other claim for which the federal courts have exclusive jurisdiction. However, the federal district courts of the United States of America would be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933, as amended, subject to applicable law.

We believe that such exclusive forum provisions are increasingly common. We believe that an exclusive forum for litigation can avoid "forum shopping," limit the distraction and expense of litigation, and ensure a more efficient resolution of disputes.

Vote Required

Approval of the Proposed Articles, including Proposal No. 5(f), requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote on this matter. If you hold your shares in your own name and abstain from voting on this proposal, your abstention will have the same effect as a negative vote on the proposal. If you hold your shares through a broker and you do not instruct the broker on how to vote on this proposal, your broker will not have authority to vote your shares. Broker non-votes will have no effect on the outcome of this vote.

Each of the subproposals comprising Proposal No. 5 is an element of a comprehensive updating of the Company's governance arrangements. However, none of the subproposals comprising Proposal No. 5 is cross-conditioned upon any of the other subproposals. Each of the proposed changes discussed in Proposal Nos. 5(b)-5(f) is being voted on separately by our shareholders. If our shareholders approve some, but not all, of Proposal Nos. 5(b)-5(f), the Proposed Articles will only be amended and restated to reflect the amendments approved by our shareholders, and appropriate changes to the form of the Proposed Articles attached as Appendix B to this proxy statement would be made prior to its filing with the Washington Secretary of State.

OUR BOARD RECOMMENDS THAT YOU VOTE "FOR" THE ESTABLISHMENT OF AN EXCLUSIVE FORUM IN WASHINGTON FOR CERTAIN CORPORATE AND SECURITIES CLAIMS.

OTHER MATTERS

Shareholder Communications with the Board

Our shareholders may, at any time, communicate in writing with any member or group of members of the Board by sending such written communication to the attention of our Secretary by regular mail to our principal executive offices, email to investorrelations@bsquare.com or facsimile at 425-519-5998.

Copies of written communications received by our Secretary will be provided to the relevant director(s) unless such communications are considered, in the reasonable judgment of our Secretary, 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 us or our business, or communications that relate to improper or irrelevant topics.

Board Attendance at Annual Shareholder Meetings

The Chairperson of the Board is expected to make all reasonable efforts to attend our annual shareholder meeting. If the Chairperson is unable to attend an annual shareholder meeting for any reason, at least one other member of the Board is expected to attend. Other members of the Board are expected to attend our annual shareholder meeting if reasonably possible. For our 2021 Annual Meeting, we are encouraging our directors to join via the conference call rather than attend in-person. Six of our seven then current directors attended the 2020 Annual Meeting of Shareholders.

Transaction of Other Business

Our Board 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

With this proxy statement, we are distributing our Annual Report to Shareholders for the year ended December 31, 2020 consisting of our Annual Report on Form 10-K for the year ended December 31, 2020, without exhibits.

By Order of the Board

Christopher Wheaton
Chief Financial and Operating Officer, Secretary and Treasurer
Seattle, Washington
April 28, 2021

Appendix A

2021 Equity Incentive Plan

BSQUARE CORPORATION
2021 EQUITY INCENTIVE PLAN

BSQUARE CORPORATION

2021 EQUITY INCENTIVE PLAN

1. DEFINITIONS

Capitalized terms not defined elsewhere in the Plan shall have the following meanings (whether used in the singular or plural).

(a) "Agreement" means a written agreement approved by the Committee evidencing Awards granted under the Plan.

(b) "Approved Transaction" means:

(i) the acquisition of the Company by another entity by means of merger, consolidation or other transaction or series of related transactions resulting in the exchange of the outstanding shares of the Company for securities of, or consideration issued, or caused to be issued by, the acquiring entity or any of its affiliates, provided, that after such event the shareholders of the Company immediately prior to the event own less than a majority of the outstanding voting equity securities of the surviving entity immediately following the event;

(ii) any liquidation or dissolution of the Company; and

(iii) any sale, lease, exchange or other transfer not in the ordinary course of business (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company.

(c) "Award" means any award granted under the Plan, including Options, Stock Awards, Restricted Stock Units and SARs.

(d) "Awardee" means any person to whom an Award is granted under the Plan (as well as any permitted transferee of an Award).

(e) "Board" means the Board of Directors of the Company.

(f) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute or statutes thereto. Reference to any specific section of the Code shall include any successor section.

(g) "Committee" shall mean the Board, or the committee appointed by the Board pursuant to Section 3(b) of the Plan, if it is administering the Plan.

(h) "Common Stock" means the Common Stock, no par value, of the Company.

(i) "Company" means BSQUARE Corporation, a Washington corporation.

(j) "Control Purchase" means any transaction (or series of related transactions) in which any person, corporation or other entity (including any "person" as defined in Sections 13(d)(3) and 14(d)(2) of the Exchange Act, but excluding the Company and any employee benefit plan sponsored by the Company):

(i) purchases any Common Stock (or securities convertible into Common Stock) for cash, securities or any other consideration pursuant to a tender offer or exchange offer unless by the terms of such offer the offeror, upon consummation thereof, would be the "beneficial owner" (as that term is defined in Rule 13d-3 under the Exchange Act) of less than 30% of the shares of Common Stock then outstanding; or

(ii) becomes the "beneficial owner," directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the then outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Rule 13d-3(d) under the Exchange Act in the case of rights to acquire the Company's securities); *provided*, *however*, that the foregoing shall not constitute a Control Purchase if the transactions or related transactions received the prior approval of a majority of all of the directors of the Company, excluding for such purpose the votes of directors who are directors or officers of, or have a material financial interest in any Person (other than the Company) who is a party to the event specified in either clauses (i) or (ii).

(k) "Date of Grant" means that date the Committee has deemed to be the effective date of the Award for purposes of the Plan.

(l) "Disability" means any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months that renders the Awardee unable to engage in any substantial gainful activity.

(m) "Effective Date" means at the time specified in the resolutions of the Board adopting the Plan.

(n) "Employees" means individuals employed by the Company or a Related Corporation.

(o) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor statute or statutes thereto. Reference to any specific section of the Exchange Act shall include any successor section.

(p) **"Executive Officer**" shall be defined in Section 3(d).

(q) **"Fair Market Value**" means, if the Common Stock is publicly traded, the last sales price (or, if no last sales price is reported, the average of the high bid and low asked prices) for a share of Common Stock on that day (or, if that day is not a trading day, on the next preceding trading day), as reported by the principal exchange on which the Common Stock is listed, or, if the Common Stock is publicly traded but not listed on an exchange, as reported by The Nasdaq Stock Market, or if such prices or quotations are not reported by The Nasdaq Stock Market, as reported by any other available source of prices or quotations selected by the Committee. If the Common Stock is not publicly traded or if the Fair Market Value is not determinable by any of the foregoing means, the Fair Market Value on any day shall be determined in good faith by the Committee on the basis of such considerations as the Committee deems important.

(r) **"Immediate Family Member**" means a spouse, children or grandchildren of the Optionee.

(s) **"Incentive Stock Option**" means an Option that is an incentive stock option within the meaning of Section 422 of the Code.

(t) **"Non-Employee Director**" has the meaning given to it by Rule 16b-3 promulgated under the Exchange Act.

(u) **"Non-Qualified Stock Option**" means an Option that is not an Incentive Stock Option.

(v) **"Option**" means an option with respect to shares of Common Stock awarded pursuant to Section 6.

(w) **"Optionee**" means any person to whom an Option is granted under the Plan (as well as any permitted transferee of an Option).

(x) **"Plan**" means the BSQUARE Corporation 2021 Equity Incentive Plan.

(y) **"Related Corporation**" means any corporation (other than the Company) that is a "parent corporation" of the Company or "subsidiary corporation" of the Company, as defined in Sections 424(e) and 424(f), respectively, of the Code.

(z) **"Restricted Stock Awards**" means Awards granted pursuant to Section 8.

(aa) **"Restricted Stock Unit**" means a bookkeeping entry representing the equivalent of one share of Common Stock, as awarded under the Plan.

(bb) **"SARs**" means Awards granted pursuant to Section 7.

(cc) **"Section 16 Insiders**" means individuals who are subject to Section 16(b) of the Exchange Act with respect to the Common Stock.

(dd) **"Securities Act**" means the Securities Act of 1933, as amended from time to time, or any successor statute or statutes thereto. References to any specific section of the Securities Act shall include any successor section.

(ee) **"Stock Awards**" means Restricted and Unrestricted Stock Awards granted pursuant to Sections 8 and 9, respectively.

(ff) **"Ten Percent Shareholder**" means a person who owns more than ten percent of the total combined voting power of the Company or any related corporation as determined with reference to Section 424(d) of the Code.

(gg) **"Unrestricted Stock Awards**" means Awards granted pursuant to Section 9.

2. PURPOSES

The purposes of the Plan are to retain the services of directors, valued key employees and consultants of the Company and such other persons as the Committee shall select in accordance with Section 4, to encourage such persons to acquire a greater proprietary interest in the Company, thereby strengthening their incentive to achieve the objectives of the shareholders of the Company, and to serve as an aid and inducement in hiring new employees and to provide an equity incentive to directors, consultants and other persons selected by the Committee.

3. ADMINISTRATION

(a) **Committee**.

The Plan shall be administered by the Board unless the Board appoints a separate committee of the board to administer the Plan pursuant to Section 3(b) below. A majority of the members of the Committee shall constitute a quorum, and all actions of the Committee shall be taken by a majority of the members present. Any action may be taken by a written instrument signed by all of the members of the Committee and any action so taken shall be fully effective as if it had been taken at a meeting.

(b) Appointment of Committee.

The Board may appoint a committee consisting of two or more of its members to administer the Plan. The Board shall consider whether a director is a Non-Employee Director when appointing any such Committee and shall appoint solely two or more individuals who qualify as Non-Employee Directors to administer the Plan with respect to Section 16 Insiders. The Committee shall have the powers and authority vested in the Board hereunder (including the power and authority to interpret any provision of the Plan or of any Option). The members of any such Committee shall serve at the pleasure of the Board.

(c) Powers; Regulations.

Subject to the provisions of the Plan, and with a view to effecting its purpose, the Committee shall have sole authority, in its absolute discretion, to:

(1) construe and interpret the Plan;
(2) define the terms used in the Plan;
(3) prescribe, amend and rescind rules and regulations relating to the Plan;
(4) correct any defect, supply any omission or reconcile any inconsistency in the Plan;
(5) grant Awards under the Plan;
(6) determine the individuals to whom Awards shall be granted under the Plan and the type of Award;
(7) determine the time or times at which Awards shall be granted under the Plan;
(8) determine the number of shares of Common Stock subject to each Award, the exercise price of each Award, the duration of each Award and the times at which each Award shall become exercisable;
(9) determine all other terms and conditions of Awards; and
(10) make all other determinations necessary or advisable for the administration of the Plan.

All decisions, determinations and interpretations made by the Committee shall be binding and conclusive on all participants in the Plan and on their legal representatives, heirs and beneficiaries.

(d) Delegation to Executive Officer.

The Committee may by resolution delegate to one or more executive officers (the "Executive Officer") of the Company the authority to grant Awards under the Plan to consultants and employees of the Company who, at the time of grant, are not Section 16 Insiders; *provided*, *however*, that the authority delegated to the Executive Officer under this Section 3 shall not exceed that of the Committee under the provisions of the Plan and shall be subject to such limitations, in addition to those specified in this Section 3, as may be specified by the Committee at the time of delegation.

(e) Option or SAR Repricing.

Without the affirmative vote of holders of a majority of the shares entitled to vote that are cast in person or by proxy at a meeting of the shareholders of the Company at which a quorum representing a majority of all outstanding shares is present or represented by proxy, the Board or Committee shall not approve a program providing for either (a) the cancellation of outstanding Options or SARs having exercise prices per share greater than the then Fair Market Value of a share of Common Stock ("Underwater Awards") and the grant in substitution therefor of new Options or SARs having a lower exercise price, awards other than Options or SARs or payments in cash, or (b) the amendment of outstanding Underwater Awards to reduce the exercise price thereof. This Section shall not be construed to apply to (i) "issuing or assuming a stock option in a transaction to which Section 424(a) applies," within the meaning of Section 424 of the Code, (ii) adjustments pursuant to the assumption of or substitution for an Option or SAR in a manner that would comply with Section 409A, or (iii) an adjustment pursuant to Section 12.

(f) Non-Employee Director Award Limit.

Notwithstanding any other provision of the Plan to the contrary, the aggregate grant date fair value (computed as of the date of grant in accordance with generally accepted accounting principles in the United States) of all Awards granted to any Non-Employee Director during any fiscal year of the Company, taken together with any cash compensation paid to such Non-Employee Director for service as a Non-Employee Director during such fiscal year, shall not exceed $200,000.

(g) Minimum Vesting.

Except with respect to five percent (5%) of the maximum aggregate number of shares of Common Stock that may be issued under the Plan, as provided in Section 5, no Award which vests on the basis of the Awardee's continued service shall vest earlier than one year following the date of grant of such Award and no Award which vests on the basis of attainment of performance goals shall provide for a performance period of less than one year; provided, however, that such limitations shall not preclude the acceleration of vesting of such Award upon the death or disability of the Awardee or in connection with an Approved Transaction or Control Purchase.

4. ELIGIBILITY.

Incentive Stock Options may be granted to any individual who, at the time such Options are granted, is an Employee, including Employees who are also directors of the Company. Other Awards may be granted to Employees and to such other persons as the Committee shall select. Awards may be granted in substitution for outstanding options or equity-based awards of another corporation in connection with the merger, consolidation, acquisition of property or stock or other reorganization between such other corporation and the Company or any subsidiary of the Company.

5. STOCK.

The Company is authorized to grant up to a total of 1,200,000 shares of the Company's authorized but unissued, or reacquired, Common Stock pursuant to Awards under the Plan. The number of shares with respect to which Awards may be granted hereunder is subject to adjustment as set forth herein. In the event that any outstanding Award expires or is terminated for any reason, the shares of Common Stock allocable to the unexercised or forfeited portion of such Award may again be subject to an Award granted to the same Awardee or to a different person eligible under Section 4. Shares of Common Stock shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash. Upon payment in shares of Common Stock pursuant to the exercise of an SAR, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the SAR is exercised. If the exercise price of an Option is paid by tender to the Company, or attestation to the ownership, of shares of Common Stock owned by the Participant, or by means of share withholding, the number of shares available for issuance under the Plan shall be reduced by the gross number of shares for which the Option is exercised. Shares withheld or reacquired by the Company in satisfaction of tax withholding obligations pursuant to the exercise or settlement of Awards shall not again be available for issuance under the Plan.1 Shares purchased in the open market with proceeds from the exercise of Options shall not be added to the limit set forth in this Section.2

6. TERMS AND CONDITIONS OF OPTIONS.

Each Option granted under the Plan shall be evidenced by an Agreement. Agreements may contain such provisions, not inconsistent with the Plan, as the Committee or Executive Officer, in its discretion, may deem advisable. All Options also shall comply with the following requirements:

(a) Number of Shares and Type of Option.

Each Agreement shall state the number of shares of Common Stock to which it pertains and whether the Option is intended to be an Incentive Stock Option or a Non-Qualified Stock Option. In the absence of action to the contrary by the Committee or Executive Officer in connection with the grant of an Option, all Options shall be Non-Qualified Stock Options. The aggregate Fair Market Value (determined at the Date of Grant) of the Common Stock with respect to which the Incentive Stock Options granted to the Optionee and any incentive stock options granted to the Optionee under any other stock option plan of the Company, any Related Corporation or any predecessor corporation are exercisable for the first time by the Optionee during any calendar year shall not exceed $100,000, or such other limit as may be prescribed by the Code. If:

(1) an Optionee holds one or more Incentive Stock Options under the Plan (and/or any incentive stock options under any other stock option plan of the Company, any Related Corporation or any predecessor corporation), and

(2) the aggregate Fair Market Value of the shares of Common Stock with respect to which, during any calendar year, such Options become exercisable for the first time exceeds $100,000 (said value to be determined as provided above),

then such Option or Options are intended to qualify under Section 422 of the Code with respect to the maximum number of such shares as can, in light of the foregoing limitation, be so qualified, with the shares so qualified to be the shares subject to the Option or Options earliest granted to the Optionee. If an Option that would otherwise qualify as an Incentive Stock Option becomes exercisable for the first time in any calendar year for shares of Common Stock that would cause such aggregate Fair Market Value to exceed $100,000, then the portion of the Option in respect of such shares shall be deemed to be a Non-Qualified Stock Option.

(b) Date of Grant.

Each Agreement shall state the Date of Grant.

(c) Option Price.

Each Agreement shall state the price per share of Common Stock at which it is exercisable. The exercise price shall be fixed by the Committee or Executive Officer at whatever price the Committee or Executive Officer may determine in the exercise of its sole discretion; *provided, however,* that the per share exercise price for an Option shall not be less than the Fair Market Value at the Date of Grant; *provided further*, that with respect to Incentive Stock Options granted to Ten Percent Shareholders of the Company, the per share exercise price shall not be less than 110 percent (110%) of the Fair Market Value at the Date of Grant; and, *provided further*, that Options granted in substitution for outstanding options of another corporation in connection with the merger, consolidation, acquisition of property or stock or other reorganization involving such other corporation and the Company or any subsidiary of the Company may be granted with an exercise price equal to the exercise price for the substituted option of the other corporation, subject to any adjustment consistent with the terms of the transaction pursuant to which the substitution is to occur.

(d) Duration of Options.

On the Date of Grant, the Committee or Executive Officer shall designate, subject to Section 6(g), the expiration date of the Option, which date shall not be later than ten (10) years from the Date of Grant in the case of Incentive Stock Options; *provided, however,* that the expiration date of any Incentive Stock Option granted to a Ten Percent Shareholder shall not be later than five (5) years from the Date of Grant. In the absence of action to the contrary by the Committee in connection with the grant of an Option, and except in the case of Incentive Stock Options granted to Ten Percent Shareholders, all Options granted under this Section 6 shall expire ten (10) years from the Date of Grant.

(e) Vesting Schedule and Exercisability of Options

No Option shall be exercisable until it has vested. The vesting schedule for each Option shall be specified by the Committee or Executive Officer at the time of grant of the Option.

The Committee or Executive Officer may specify a vesting schedule for all or any portion of an Option based on the achievement of performance objectives established in advance of the commencement by the Optionee of services related to the achievement of the performance objectives. Performance objectives shall be expressed in terms of one or more of the following: return on equity, return on assets, share price, market share, sales, earnings per share, costs, net earnings, net worth, inventories, cash and cash equivalents, gross margin or the Company's performance relative to its internal business plan. Performance objectives may be in respect of the performance of the Company as a whole (whether on a consolidated or unconsolidated basis), a Related Corporation, or a subdivision, operating unit, product or product line of the foregoing. Performance objectives may be absolute or relative and may be expressed in terms of a progression or a range. An Option which is exercisable (in whole or in part) upon the achievement of one or more performance objectives may be exercised only upon completion of the following process: (a) the Optionee must deliver written notice to the Company that the performance objective has been achieved and demonstrating, if necessary, how the objective has been satisfied, (b) within 45 days after receipt of such notice, the Committee will make a good faith determination whether such performance objective has been achieved and deliver written notice to the Optionee detailing the results of such determination; if the Company fails to respond with such 45-day period, then the performance objective shall be presumed to have been achieved and (c) upon receipt of written notice from the Company that the performance objective has been achieved (or upon expiration of such 45-day period without a determination by the Company), the Optionee may exercise the Option; upon receipt of written notice from the Company that the performance objective has not been achieved, the Optionee shall have 15 days to appeal the Company's determination and the Company shall have 15 days after the receipt of such appeal to consider the issues presented by the Optionee and make a determination on the appeal, which determination shall be conclusive and binding on the Optionee.

(f) Acceleration of Vesting.

Except to the extent that such acceleration would render unavailable "pooling of interests" accounting treatment for any reorganization, merger or consolidation of the Company, the vesting of one or more outstanding Options may be accelerated by the Board at such times and in such amounts as it shall determine in its sole discretion.

(g) Term of Option.

Any vested Option granted to an Optionee shall terminate, to the extent not previously exercised, upon the occurrence of the first of the following events:

(1) as designated by (x) the Board in accordance with Section 6(n) hereof or (y) the Committee or the Executive Officer in accordance with Section 6(d) hereof;

(2) the date of the Optionee's termination of employment or contractual relationship with the Company or any Related Corporation for cause (as determined in the sole discretion of the Committee);

(3) the expiration of ninety (90) days from the date of the Optionee's termination of employment or contractual relationship with the Company or any Related Corporation for any reason whatsoever other than cause, death or Disability unless the exercise period is extended by the Committee a date not later than the expiration date of the Option;

(4) the expiration of one year from (A) the date of death of the Optionee or (B) cessation of the Optionee's employment or contractual relationship by reason of Disability unless the exercise period is extended by the Committee until a date not later than the expiration date of the Option; or

(5) any other event specified by the Committee at the time of grant of the Option.

If an Optionee's employment or contractual relationship is terminated by death, any Option granted to the Optionee shall be exercisable only by the person or persons to whom such Optionee's rights under such Option shall pass by the Optionee's will or by the laws of descent and distribution of the state or county of the Optionee's domicile at the time of death. The Committee shall determine whether an Optionee has incurred a Disability on the basis of medical evidence reasonably acceptable to the Committee. Upon making a determination of Disability, the Committee shall, for purposes of the Plan, determine the date of an Optionee's termination of employment or contractual relationship.

Unless accelerated in accordance with Section 6(f), any unvested Option granted to an Optionee shall terminate immediately upon termination of employment of the Optionee by the Company for any reason whatsoever, including death or Disability. For purposes of the Plan, transfer of employment between or among the Company and/o any Related Corporation shall not be deemed to constitute a termination of employment with the Company or any Related Corporation. For purposes of this subsection with respect to Incentive Stock Options, employment shall be deemed to continue while the Optionee is on military leave, sick leave or other bona fide leave of absence (as determined by the Committee). The foregoing notwithstanding, employment shall not be deemed to continue beyond the first ninety (90) days of such leave, unless the Optionee's re-employment rights are guaranteed by statute or by contract.

(h) Exercise of Options.

If less than all of the shares included in an Option are purchased, the remainder may be purchased at any subsequent time prior to the expiration date with respect to, or the termination of, the Option. No portion of any Option may be exercised for less than one hundred (100) shares (as adjusted pursuant to Section 6(m)); provided, however, that if the Option is less than one hundred (100) shares, it may be exercised with respect to all shares for which it is vested. Only whole shares may be issued upon exercise of an Option, and to the extent that an Option covers less than one (1) share, it is unexercisable.

An Option or any portion thereof may be exercised by giving written notice to the Company upon such terms and conditions as the Agreement evidencing the Option may provide and in accordance with such other procedures for the exercise of an Option as the Committee may establish from time to time. Such notice shall be accompanied by payment in the amount of the aggregate exercise price for such shares, which payment shall be in the form specified in Section 6(i). The Company shall not be obligated to issue, transfer or deliver a certificate of Common Stock to the holder of any Option until provision has been made by the holder, to the satisfaction of the Company, for the payment of the aggregate exercise price for all shares for which the Option shall have been exercised and for satisfaction of any tax withholding obligations associated with such exercise. Options granted to an Optionee are, during the Optionee's lifetime, exercisable only by the Optionee or a transferee who takes title to the Option in the manner permitted by Section 6(k).

(i) Payment upon Exercise of Option.

Upon the exercise of an Option, the Optionee shall pay to the Company the aggregate exercise price therefor in cash, by certified or cashier's check. In addition, such Optionee may pay for all or any portion of the aggregate exercise price by complying with one or more of the following alternatives:

(1) by delivering to the Company whole shares of Common Stock then owned by such Optionee, or, subject to the prior approval of the Committee, by the Company withholding whole shares of Common Stock otherwise issuable to the Optionee upon exercise of the Option, which shares of Common Stock received or withheld shall be valued for such purpose at their Fair Market Value on the date of exercise.

(2) by delivering a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company the amount of sale or loan proceeds required to pay the exercise price;

(3) by any combination of the foregoing methods of payment; or

(4) by complying with any other payment mechanism, including through the execution of a promissory note, as may be permitted for the issuance of equity securities under applicable securities and other laws and approved by the Committee at the time of exercise.

(j) Rights as a Shareholder.

An Optionee shall have no rights as a shareholder with respect to any shares of Common Stock issuable upon exercise of the Option until such holder becomes a record holder of such shares. Subject to the provisions of Sections 6(m), no rights shall accrue to an Optionee and no adjustments shall be made on account of dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights declared on, or created in, the Common Stock for which the record date is prior to the date such Optionee becomes a record holder of the shares of Common Stock issuable upon exercise of such Option.

(k) Transfer of Option.

Options granted under the Plan and the rights and privileges conferred by the Plan may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will, by applicable laws of descent and distribution or pursuant to a domestic relations order (as defined in the Code or Title I of the Employment Retirement Income Security Act of 1974 or the rules or regulations thereunder), and shall not be subject to execution, attachment or similar process; *provided, however*, that solely with respect to Non-Qualified Stock Options, the Committee may, in its discretion, authorize all or a portion of the Options to be granted to an Optionee to be on terms which permit transfer by such Optionee to:

(1) Immediate Family Members,

(2) a trust or trusts for the exclusive benefit of such Immediate Family Members, or

(3) a partnership in which such Immediate Family Members are the only partners, provided that:

(i) there may be no consideration for any such transfer,

(ii) the Agreement evidencing such Options must be approved by Committee, and must expressly provide for transferability in a manner consistent with this Section, and

(iii) subsequent transfers of transferred Options shall be prohibited other than by will, by applicable laws of descent and distribution or pursuant to a domestic relations order (as defined in the Code or Title I of the Employment Retirement Income Security Act of 1974 or the rules or regulations thereunder).

Following transfer, any such Options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of Section 6(l)(2), the term "Optionee" shall be deemed to refer to the initial transferor. The events of termination of employment of Section 6(g) shall continue to be applied with respect to the original Optionee, following which the options shall be exercisable by the transferee only to the extent, and for the periods, specified in Section 6(g). Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any Option or of any right or privilege conferred by the Plan contrary to the provisions hereof, or upon the sale, levy or any attachment or similar process upon the rights and privileges conferred by the Plan, such Option shall thereupon terminate and become null and void.

(l) Securities Regulation and Tax Withholding.

(1) No shares of Common Stock shall be issued upon exercise of an Option unless the exercise of such Option and the issuance and delivery of such shares shall comply with all relevant provisions of law, including, without limitation, any applicable state securities laws, the Securities Act, the Exchange Act, the rules and regulations thereunder and the requirements of any stock exchange upon which such shares may then be listed, and such issuance shall be further subject to the approval of counsel for the Company with respect to such compliance, including the availability of an exemption from registration for the issuance and sale of such shares. The inability of the Company to obtain from any regulatory body the authority deemed by the Company to be necessary for the lawful issuance and sale of any shares under the Plan, or the unavailability of an exemption from registration for the issuance and sale of any shares under the Plan, shall relieve the Company of any liability with respect to the non-issuance or sale of such shares.

As a condition to the exercise of an Option, the Committee may require the Optionee to represent and warrant in writing at the time of such exercise that the shares of Common Stock issuable upon exercise of the Option are being purchased only for investment and without any then-present intention to sell or distribute such shares. At the option of the Committee, a stop-transfer order against such shares may be placed on the stock books and records of the Company, and a legend indicating that such shares may not be pledged, sold or otherwise transferred unless an opinion of counsel is provided stating that such transfer is not in violation of any applicable law or regulation, may be stamped on the certificates representing such shares in order to assure an exemption from registration. The Committee also may require such other documentation as it shall, in its discretion, deem necessary from time to time to comply with federal and state securities laws. THE COMPANY HAS NO OBLIGATION TO UNDERTAKE REGISTRATION OF ANY OPTION OR ANY SHARES OF COMMON STOCK ISSUABLE UPON THE EXERCISE OF ANY OPTION.

(2) The Optionee shall pay to the Company by certified or cashier's check, promptly upon exercise of the Option or, if later, the date that the amount of such obligations becomes determinable, all applicable federal, state, local and foreign withholding taxes that the Committee, in accordance with the applicable rules and regulations, determines to result from the exercise of the Option or from a transfer or other disposition of shares of Common Stock acquired upon exercise of the Option or otherwise related to the Option or shares of Common Stock acquired upon exercise of the Option, which determination by the Committee of the amount due shall be binding upon the Optionee. Upon approval of the Committee, such Optionee may satisfy such obligation by complying with one or more of the following alternatives selected by the Committee:

(A) by delivering to the Company whole shares of Common Stock then owned by such Optionee, or by the Company withholding whole shares of Common Stock otherwise issuable to the Optionee upon exercise of the Option, which shares of Common Stock received or withheld shall have a Fair Market Value on the date of exercise (as determined by the Committee in good faith) equal to the tax obligation to be paid by such Optionee upon such exercise determined by the applicable minimum statutory withholding rates;

(B) by executing appropriate loan documents approved by the Committee by which such Optionee borrows funds from the Company to pay the withholding taxes due under this Section 6(l)(2), with such repayment terms as the Committee shall select;

(C) by any combination of the foregoing methods of payment; or

(D) by complying with any other payment mechanism as may be permitted for the issuance of equity securities under applicable securities and other laws and approved by the Committee from time to time.

(3) The issuance, transfer or delivery of certificates of Common Stock pursuant to the exercise of an Option may be delayed, at the discretion of the Committee, until the Committee is satisfied that the applicable requirements of the federal and state securities laws and the withholding provisions of the Code have been met.

(m) Stock Split, Reorganization or Liquidation.

(1) Upon the occurrence of any of the following events, the Committee shall, with respect to each outstanding Option, proportionately adjust the number of shares of Common Stock issuable upon exercise of such Option, the per share exercise price or both so as to preserve the rights of the Optionee substantially proportionate to the rights of such Optionee prior to such event, and to the extent that such action shall include an increase or decrease in the number of shares of Common Stock issuable upon exercise of outstanding Options, the number of shares available under Section 5 shall automatically be increased or decreased, as the case may be, proportionately, without further action on the part of the Committee, the Company, the Company's shareholders, or any Optionee:

(i) the Company shall at any time be involved in a transaction described in Section 424(a) of the Code (or any successor provision) or any "corporate transaction" described in the regulations promulgated thereunder;

(ii) the Company subdivides its outstanding shares of Common Stock into a greater number of shares of Common Stock (by stock dividend, stock split, reclassification or otherwise) or combines its outstanding shares of Common Stock into a smaller number of shares of Common Stock (by reverse stock split, reclassification or otherwise); or

(iii) any other event with substantially the same effect shall occur.

(2) If the Company shall at any time declare an extraordinary dividend with respect to the Common Stock, whether payable in cash or other property, or is involved in any recapitalization, spin-off, combination, exchange of shares, warrants or rights offering to purchase Common Stock, or other similar event (including a merger or consolidation other than one that constitutes an Approved Transaction), the Committee may, in the exercise of its sole discretion and with respect to each outstanding Option, proportionately adjust the number of shares of Common Stock issuable upon exercise of such Option, the per share exercise price or both so as to preserve the rights of the Optionee substantially proportionate to the rights of such Optionee prior to such event, and to the extent that such action shall include an increase or decrease in the number of shares of Common Stock issuable upon exercise of outstanding Options, the number of shares available under Section 5 of the Plan shall automatically be increased or decreased, as the case may be, proportionately, without further action on the part of the Committee, the Company, the Company's shareholders, or any Optionee.

(3) The foregoing adjustments shall be made by the Committee or by the applicable terms of any assumption or substitution document.

(4) With respect to the foregoing adjustments, the number of shares subject to an Option shall always be a whole number. The Committee may, if deemed appropriate, provide for a cash payment to any Optionee in connection with any adjustment made pursuant to this Section 6(m).

(5) The grant of an Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge, consolidate or dissolve, to liquidate or to sell or transfer all or any part of its business or assets.

(n) Approved Transactions; Control Purchase.

In the event of any Approved Transaction or Control Purchase, if so provided for in the Agreement representing such Option, an Option may become exercisable in full in respect of the aggregate number of shares thereunder effective upon the Control Purchase or immediately prior to consummation of the Approved Transaction. In the case of an Approved Transaction, the Company shall provide notice of the pendency of the Approved Transaction at least fifteen (15) days prior to the expected date of consummation thereof to each Optionee entitled to acceleration. Each such Optionee shall thereupon be entitled to exercise the vested portion of the Option at any time prior to consummation of the Approved Transaction or immediately following the Control Purchase. Any such exercise shall be contingent on such consummation.

Following consummation of the Approved Transaction or Control Purchase, and until such Option is terminated pursuant to Section 6(g) hereof, any vested portion of Options that are not exercised shall remain exercisable, and any unvested portions of any Options shall remain in effect and continue to vest in accordance with the vesting schedule specified at the time of grant, and upon such vesting shall become exercisable. Notwithstanding the foregoing, in its reasonable discretion, the Board may determine that any or all outstanding Options that are unvested at the time of, or are not exercised upon consummation of, the Approved Transaction or Control Purchase shall thereafter terminate, provided that, in making such determination, the Board shall consider the best interests of the Optionees, the Company and its shareholders, and will make such determination only if the action to be taken, in the opinion of the Board, is appropriate in light of the circumstances under which such determination is made.

Moreover, except to the extent that such determination would render unavailable "pooling of interests" accounting treatment for any reorganization, merger or consolidation of the Company, the Board may take, or make effective provision for the taking of, such action as in the opinion of the Board is equitable and appropriate in order to substitute new stock options for any or all outstanding Options that do not become exercisable on an accelerated basis, or to assume such Options (which assumption may be effected by any means determined by the Board, in its discretion, including, but not limited to, by a cash payment to each Optionee, in cancellation of the Options held by him or her, of such amount as the Board determines, in its sole discretion, represents the then value of the Options) and in order to make such new stock options or assumed Options, as nearly as practicable, equivalent to the old Options, taking into account, to the extent applicable, the kind and amount of securities, cash or other assets into or for which the Common Stock may be changed, converted or exchanged in connection with the Approved Transaction.

7. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS.

(a) Award of Stock Appreciation Rights.

Stock appreciation rights ("SARs") may be granted to eligible participants, either on a free-standing basis (without regard to or in addition to the grant of an Option) or on a tandem basis (related to the grant of an underlying Option). SARs granted in tandem with or in addition to an Option may be granted either at the same time as the Option or at a later time; provided, however, that a tandem SAR shall not be granted with respect to any outstanding Incentive Stock Option without the consent of the Awardee. SARs shall be evidenced by Agreements stating the number of shares of Common Stock subject to the SAR evidenced thereby and the terms and conditions of such SAR. In no event shall a SAR be exercisable more than ten years from the date it is granted. The Awardee shall have none of the rights of a shareholder of the Company with respect to any shares of Common Stock represented by a SAR.

(b) Restrictions of Tandem SARs.

No Incentive Stock Option may be surrendered in connection with the exercise of a tandem SAR unless the Fair Market Value of the Common Stock subject to the Incentive Stock Option is greater than the exercise price for such Incentive Stock Option. SARs granted in tandem with Options shall be exercisable only to the same extent and subject to the same conditions as the Options related thereto are exercisable. Additional conditions to the exercise of any such tandem SAR may be prescribed.

(c) Amount of Payment Upon Exercise of SARs.

A SAR shall entitle the Awardee to receive, subject to the provisions of the Plan and the applicable Agreement, a payment having an aggregate value equal to the product of (i) the excess of (A) the Fair Market Value on the exercise date of one share of Common Stock over (B) the base price per share specified in the applicable Agreement, times (ii) the number of shares specified by the SAR, or portion thereof, which is exercised. In the case of exercise of a tandem SAR, such payment shall be made in exchange for the surrender of the unexercised related Option (or any portion or portions thereof which the Awardee from time to time determines to surrender for this purpose).

(d) Form of Payment Upon Exercise of SARs.

Payment by the Company of the amount receivable upon any exercise of a SAR may be made by the delivery of Common Stock or cash, or any combination of Common Stock and cash, as determined in the sole discretion of the Committee from time to time. If upon settlement of the exercise of a SAR an Awardee is to receive a portion of such payment in shares of Common Stock, the number of shares shall be determined by dividing such portion by the Fair Market Value of a share of Common Stock on the exercise date. No fractional shares shall be used for such payment and the Committee shall determine whether cash shall be given in lieu of such fractional shares or whether such fractional shares shall be eliminated.

8. RESTRICTED STOCK AWARDS.

(a) Nature of Restricted Stock Awards.

A Restricted Stock Award is an Award pursuant to which the Company may, in its sole discretion, grant or sell, at such purchase price as determined by the Committee, in its sole discretion, shares of Common Stock subject to such restrictions and conditions as the Committee may determine at the time of grant ("Restricted Stock"), which purchase price shall be payable in cash or other form of consideration acceptable to the Committee. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each such Agreement shall be determined by the Committee, and such terms and conditions may differ among individual Awards and Awardees.

(b) Rights as a Shareholder.

Upon execution of an Agreement setting forth the Restricted Stock Award and payment of any applicable purchase price, an Awardee shall have the rights of a shareholder with respect to the voting of the Restricted Stock, subject to such conditions contained in the applicable Agreement. Unless the Committee shall otherwise determine, certificates evidencing the Restricted Stock shall remain in the possession of the Company until such Restricted Stock is vested as provided in Section 8(d) below, and the Awardee shall be required, as a condition of the grant, to deliver to the Company a stock power endorsed in blank. Dividends and distributions payable with respect to shares of Restricted Stock shall be subject to the same vesting conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were declared and shall be paid to the Awardee at the time such shares vest but in any event no later than the 15th day of the third month following the calendar year in which such shares vest. In the event of a dividend or distribution paid in shares of Common Stock or other property or any other adjustment made upon a change in the capital structure of the Company as described in Section 12, any and all new, substituted or additional securities or other property (other than regular, periodic cash dividends) to which the Awardee is entitled by reason of the Awardee's Restricted Stock Award shall be immediately subject to the same vesting conditions as the shares subject to the Restricted Stock Award with respect to which such dividends or distributions were paid or adjustments were made.

(c) Restrictions.

Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the applicable Agreement. If an Awardee's employment (or other service relationship) with the Company terminates under the conditions specified in the applicable Agreement, or upon such other event or events as may be stated in the applicable Agreement, the Company or its assigns shall have the right or shall agree, as may be specified in the applicable Agreement, to repurchase some or all of the shares of Common Stock subject to the Award at such purchase price as is set forth in such instrument.

(d) Vesting of Restricted Stock.

The Committee at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which Restricted Stock shall become vested, subject to such further rights of the Company or its assigns as may be specified in the applicable Agreement.

9. UNRESTRICTED STOCK AWARDS.

(a) Grant or Sale of Unrestricted Stock.

The Committee may, in its sole discretion, grant (or sell at a purchase price determined by the Committee) an Unrestricted Stock Award to any Awardee, pursuant to which such Awardee may receive shares of Common Stock free of any vesting restrictions ("Unrestricted Stock") under the Plan. Unrestricted Stock Awards may be granted or sold as described in the preceding sentence in respect of past services or other valid consideration, or in lieu of any cash compensation due to such individual.

(b) Elections to Receive Unrestricted Stock In Lieu of Compensation.

Upon the request of an Awardee and with the consent of the Committee, each such Awardee may, pursuant to an advance written election delivered to the Company no later than the date specified by the Committee, receive a portion of the cash compensation otherwise due to such Awardee in the form of shares of Unrestricted Stock either currently or on a deferred basis, subject to compliance with Section 409A of the Code.

(c) Restrictions on Transfers.

The right to receive shares of Unrestricted Stock on a deferred basis may not be sold, assigned, transferred, pledged or otherwise encumbered, other than by will or the laws of descent and distribution.

10. TERMS AND CONDITIONS OF RESTRICTED STOCK UNITS.

(a) Restricted Stock Unit Agreement.

Each grant of Restricted Stock Units under the Plan shall be evidenced by an Agreement between the recipient and the Company. Such Restricted Stock Units shall be subject to the terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The provisions of the various Agreements evidencing Restricted Stock Units under the Plan need not be identical.

(b) Number of Shares.

Each Agreement evidencing a Restricted Stock Unit shall specify the number of shares of Common Stock to which the Restricted Stock Unit pertains and shall provide for the adjustment of such number in accordance with Section 12.

(c) Payment for Awards.

To the extent that an Award is granted in the form of Restricted Stock Units, no cash consideration shall be required of the Awardee.

(d) Vesting of Restricted Stock Units.

The Committee at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the Restricted Stock Unit shall become vested, subject to such further rights of the Company or its assigns as may be specified in the applicable Agreement.

(e) Voting and Dividend Rights.

The holders of Restricted Stock Units shall have no voting rights. Prior to settlement or forfeiture, any Restricted Stock Unit awarded under the Plan may, at the Committee's discretion, carry with it a right to dividend equivalents. Such right entitles the holder to be credited with an amount equal to all cash dividends paid on one share of Common Stock while the Restricted Stock Unit is outstanding. Dividend equivalents may be converted into additional Restricted Stock Units. Settlement of dividend equivalents may be made in the form of cash, in the form of shares of Common Stock, or in a combination of both. Any dividend equivalents credited shall be subject to the same conditions and restrictions as the Restricted Stock Units to which they attach and shall be settled in the same manner and at the same time as the Restricted Stock Units originally subject to the Restricted Stock Units Award.

(f) Form and Time of Settlement of Restricted Stock Units.

Settlement of vested Restricted Stock Units may be made in the form of (a) cash, (b) shares of Common Stock or (c) any combination of both, as determined by the Committee. The actual number of Restricted Stock Units eligible for settlement may be larger or smaller than the number included in the original Award, based on predetermined performance factors. Methods of converting Restricted Stock Units into cash may include (without limitation) a method based on the average Fair Market Value of shares of Common Stock over a series of trading days. Vested Restricted Stock Units may be settled in a lump sum or in installments, subject to Section 409A of the Code. The distribution may occur or commence when all vesting conditions applicable to the Restricted Stock Units have been satisfied or have lapsed, or it may be deferred to any later date, subject to Section 409A of the Code. The amount of a deferred distribution may be increased by an interest factor or by dividend equivalents. Until an Award of Restricted Stock Units is settled, the number of such Restricted Stock Units shall be subject to adjustment pursuant to Section 12.

(g) Creditors' Rights.

A holder of Restricted Stock Units shall have no rights other than those of a general creditor of the Company. Restricted Stock Units represent an unfunded and unsecured obligation of the Company, subject to the terms and conditions of the applicable Restricted Stock Agreement.

11. SECURITIES REGULATION AND TAX WITHHOLDING.

(a) No shares of Common Stock shall be issued upon exercise or settlement of an Award unless the exercise or settlement of such Award and the issuance and delivery of such shares shall comply with all relevant provisions of law, including, without limitation, any applicable state securities laws, the Securities Act, the Exchange Act, the rules and regulations thereunder and the requirements of any stock exchange upon which such shares may then be listed, and such issuance shall be further subject to the approval of counsel for the Company with respect to such compliance, including the availability of an exemption from registration for the issuance and sale of such shares. The inability of the Company to obtain from any regulatory body the authority deemed by the Company to be necessary for the lawful issuance and sale of any shares under the Plan, or the unavailability of an exemption from registration for the issuance and sale of any shares under the Plan, shall relieve the Company of any liability with respect to the non-issuance or sale of such shares.

As a condition to the exercise or settlement of an Award, the Committee may require the Awardee to represent and warrant in writing at the time of such exercise or settlement that the shares of Common Stock issuable upon exercise or settlement of the Award are being purchased only for investment and without any then-present intention to sell or distribute such shares. At the option of the Committee, a stop-transfer order against such shares may be placed on the stock books and records of the Company, and a legend indicating that such shares may not be pledged, sold or otherwise transferred unless an opinion of counsel is provided stating that such transfer is not in violation of any applicable law or regulation, may be stamped on the certificates representing such shares in order to assure an exemption from registration. The Committee also may require such other documentation as it shall, in its discretion, deem necessary from time to time to comply with federal and state securities laws. THE COMPANY HAS NO OBLIGATION TO UNDERTAKE REGISTRATION OF ANY AWARD OR ANY SHARES OF COMMON STOCK ISSUABLE UPON THE EXERCISE OF ANY AWARD.

(b) The Awardee shall pay to the Company by certified or cashier's check, promptly upon exercise or settlement of the Award or, if later, the date that the amount of such obligations becomes determinable, all applicable federal, state, local and foreign withholding taxes that the Committee, in accordance with the applicable rules and regulations, determines to result from the exercise of the Award or from a transfer or other disposition of shares of Common Stock acquired upon exercise or settlement of the Award or otherwise related to the Award or shares of Common Stock acquired upon exercise or settlement of the Award, which determination by the Committee of the amount due shall be binding upon the Awardee. Upon approval of the Committee, such Awardee may satisfy such obligation by complying with one or more of the following alternatives selected by the Committee:

(1) by delivering to the Company whole shares of Common Stock then owned by such Awardee, or by the Company withholding whole shares of Common Stock otherwise issuable to the Awardee upon exercise or settlement of the Award, which shares of Common Stock received or withheld shall have a Fair Market Value on the date of exercise or settlement (as determined by the Committee in good faith) equal to the tax obligation to be paid by such Awardee upon such exercise or settlement determined by the applicable minimum statutory withholding rates;
(2) by executing appropriate loan documents approved by the Committee by which such Awardee borrows funds from the Company to pay the withholding taxes due under this Section 11, with such repayment terms as the Committee shall select;
(3) by any combination of the foregoing methods of payment; or
(4) by complying with any other payment mechanism as may be permitted for the issuance of equity securities under applicable securities and other laws and approved by the Committee from time to time.

(c) The issuance, transfer or delivery of certificates of Common Stock pursuant to the exercise of an Award may be delayed, at the discretion of the Committee, until the Committee is satisfied that the applicable requirements of the federal and state securities laws and the withholding provisions of the Code have been met.

12. STOCK SPLIT, REORGANIZATION OR LIQUIDATION.

(a) Upon the occurrence of any of the following events, the Committee shall, with respect to each outstanding Award, proportionately adjust the number of shares of Common Stock issuable upon exercise or settlement of such Award, the per share exercise price or both so as to preserve the rights of the Awardee substantially proportionate to the rights of such Awardee prior to such event, and to the extent that such action shall include an increase or decrease in the number of shares of Common Stock issuable upon exercise of outstanding Awards, the number of shares available under Section 5 shall automatically be increased or decreased, as the case may be, proportionately, without further action on the part of the Committee, the Company, the Company's shareholders, or any Awardee:

(1) the Company shall at any time be involved in a transaction described in Section 424(a) of the Code (or any successor provision) or any "corporate transaction" described in the regulations promulgated thereunder;

(2) the Company subdivides its outstanding shares of Common Stock into a greater number of shares of Common Stock (by stock dividend, stock split, reclassification or otherwise) or combines its outstanding shares of Common Stock into a smaller number of shares of Common Stock (by reverse stock split, reclassification or otherwise); or

(3) any other event with substantially the same effect shall occur.

(b) If the Company shall at any time declare an extraordinary dividend with respect to the Common Stock, whether payable in cash or other property, or is involved in any recapitalization, spin-off, combination, exchange of shares, warrants or rights offering to purchase Common Stock, or other similar event (including a merger or consolidation other than one that constitutes an Approved Transaction), the Committee may, in the exercise of its sole discretion and with respect to each outstanding Award, proportionately adjust the number of shares of Common Stock issuable upon exercise or settlement of such Award, the per share exercise price or both so as to preserve the rights of the Awardee substantially proportionate to the rights of such Awardee prior to such event, and to the extent that such action shall include an increase or decrease in the number of shares of Common Stock issuable upon exercise of outstanding Awards, the number of shares available under Section 5 of the Plan shall automatically be increased or decreased, as the case may be, proportionately, without further action on the part of the Committee, the Company, the Company's shareholders, or any Awardee.

(c) The foregoing adjustments shall be made by the Committee or by the applicable terms of any assumption or substitution document.

(d) With respect to the foregoing adjustments, the number of shares subject to an Award shall always be a whole number. The Committee may, if deemed appropriate, provide for a cash payment to any Awardee in connection with any adjustment made pursuant to this Section 12.

(e) The grant of an Award shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge, consolidate or dissolve, to liquidate or to sell or transfer all or any part of its business or assets.

13. APPROVED TRANSACTIONS; CONTROL PURCHASE.

In the event of any Approved Transaction or Control Purchase, if so provided for in the Agreement representing such Award, an Award may become exercisable in full in respect of the aggregate number of shares thereunder effective upon the Control Purchase or immediately prior to consummation of the Approved Transaction. In the case of an Approved Transaction, the Company shall provide notice of the pendency of the Approved Transaction at least fifteen (15) days prior to the expected date of consummation thereof to each Awardee entitled to acceleration. Each such Awardee shall thereupon be entitled to exercise the vested portion of the Award at any time prior to consummation of the Approved Transaction or immediately following the Control Purchase. Any such exercise shall be contingent on such consummation.

Following consummation of the Approved Transaction or Control Purchase, and until such Award is terminated, any vested portion of Awards that are not exercised shall remain exercisable, and any unvested portions of any Awards shall remain in effect and continue to vest in accordance with the vesting schedule specified at the time of grant, and upon such vesting shall become exercisable. Notwithstanding the foregoing, in its reasonable discretion, the Board may determine that any or all outstanding Awards that are unvested at the time of, or are not exercised upon consummation of, the Approved Transaction or Control Purchase shall thereafter terminate, provided that, in making such determination, the Board shall consider the best interests of the Awardees, the Company and its shareholders, and will make such determination only if the action to be taken, in the opinion of the Board, is appropriate in light of the circumstances under which such determination is made.

Moreover, except to the extent that such determination would render unavailable "pooling of interests" accounting treatment for any reorganization, merger or consolidation of the Company, the Board may take, or make effective provision for the taking of, such action as in the opinion of the Board is equitable and appropriate in order to substitute new awards for any or all outstanding Awards that do not become exercisable on an accelerated basis, or to assume such Awards (which assumption may be effected by any means determined by the Board, in its discretion, including, but not limited to, by a cash payment to each Awardee, in cancellation of the Awards held by him or her, of such amount as the Board determines, in its sole discretion, represents the then value of the Awards) and in order to make such new stock options or assumed Awards, as nearly as practicable, equivalent to the old Awards, taking into account, to the extent applicable, the kind and amount of securities, cash or other assets into or for which the Common Stock may be changed, converted or exchanged in connection with the Approved Transaction.

14. EFFECTIVE DATE; TERM.

The Plan shall be effective upon its approval by the shareholders of the Company (the "Effective Date"). Awards may be granted by the Committee or Executive Officer from time to time thereafter until the tenth anniversary of the Effective Date. Termination of the Plan shall not terminate any Award granted prior to such termination.

15. NO OBLIGATIONS TO EXERCISE AWARD.

The grant of an Award shall impose no obligation upon the Awardee to exercise such Award.

16. NO RIGHT TO AWARDS OR TO EMPLOYMENT.

Whether or not any Awards are to be granted under the Plan shall be exclusively within the discretion of the Committee, and nothing contained in the Plan shall be construed as giving any person any right to participate under the Plan. The grant of an Award to any Awardee shall in no way constitute any form of agreement or understanding binding on the Company or any Related Corporation, express or implied, that the Company or such Related Corporation will employ or contract with such Awardee for any length of time, nor shall it interfere in any way with the Company's or, where applicable, a Related Corporation's right to terminate such Awardee's employment at any time, which right is hereby reserved.

17. APPLICATION OF FUNDS.

The proceeds received by the Company from the sale of Common Stock issued upon the exercise of Awards shall be used for general corporate purposes, unless otherwise directed by the Board.

18. INDEMNIFICATION OF COMMITTEE.

In addition to all other rights of indemnification they may have by virtue of being a member of the Board or an executive officer of the Company, members of the Committee and the Executive Officer shall be indemnified by the Company for all reasonable expenses and liabilities of any type or nature, including attorneys' fees, incurred in connection with any action, suit or proceeding to which they or any of them are a party by reason of, or in connection with, the Plan or any Award granted under the Plan, and against all amounts paid by them in settlement thereof (provided that such settlement is approved by independent legal counsel selected by the Company), except to the extent that such expenses relate to matters for which it is adjudged that such Committee member or Executive Officer is liable for willful misconduct; provided, however, that within fifteen (15) days after the institution of any such action, suit or proceeding, the Committee member or Executive Officer involved therein shall, in writing, notify the Company of such action, suit or proceeding, so that the Company may have the opportunity to make appropriate arrangements to prosecute or defend the same.

19. SHAREHOLDERS AGREEMENT.

Unless the Agreement evidencing an Award expressly provides otherwise, each Awardee may be required, as a condition to the issuance of any shares of Common Stock that such Awardee acquires upon the exercise of the Award, to execute and deliver to the Company a shareholders agreement in such form as may be required by the Company at the time of such exercise, or a counterpart thereof, together with, unless the Awardee is unmarried, a spousal consent in the form required thereby, unless the Awardee has previously executed and delivered such documents and they are in effect at the time of exercise and apply by their terms to the shares to be issued.

20. SEPARABILITY.

With respect to Incentive Stock Options, if the Plan does not contain any provision required to be included herein under Section 422 of the Code, such provision shall be deemed to be incorporated herein with the same force and effect as if such provision had been set out in full herein; provided, however, that to the extent any Option that is intended to qualify as an Incentive Stock Option cannot so qualify, the Option, to that extent, shall be deemed to be a Non-Qualified Stock Option for all purposes of the Plan.

21. NON-EXCLUSIVITY OF THE PLAN.

Neither the adoption of the Plan by the Board nor the submission of the Plan to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options and the awarding of stock and cash otherwise than pursuant to the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

22. EXCLUSION FROM PENSION AND PROFIT-SHARING COMPUTATION.

By acceptance of an Award, unless otherwise provided in the Agreement evidencing the Award, the Awardee with respect to such Award shall be deemed to have agreed that the Award is special incentive compensation that will not be taken into account, in any manner, as salary, compensation or bonus in determining the amount of any payment or other benefit under any pension, retirement or other employee benefit plan, program or policy of the Company or any of its affiliates.

23. AMENDMENT OF PLAN.

The Board may, at any time, modify, amend or terminate the Plan or modify or amend any Award granted pursuant to the Plan, including, without limitation, such modifications or amendments as are necessary to maintain compliance with applicable statutes, rules or regulations; provided, however, that no amendment with respect to an outstanding Award which has the effect of reducing the benefits afforded to the Awardee shall be made over the objection of such Awardee; further provided, that the events triggering acceleration of vesting of an outstanding Award may be modified, expanded or eliminated without the consent of the Awardee. The Board may condition the effectiveness of any such amendment on the receipt of shareholder approval at such time and in such manner as the Committee may consider necessary for the Company to comply with or to avail the Company, the Awardees or both of the benefits of any securities, tax, market listing or other administrative or regulatory requirement which the Board determines to be desirable. Without limiting the generality of the foregoing, the Board may modify grants to persons who are eligible to receive Awards under the Plan who are foreign nationals or employed outside the United States to recognize differences in local law, tax policy or custom.

Appendix B

Amended and Restated Articles of Incorporation

AMENDED AND RESTATED

ARTICLES OF INCORPORATION

OF

BSQUARE CORPORATION

ARTICLE 1
NAME

The name of the corporation is Bsquare Corporation.

ARTICLE 2
DURATION

The corporation is organized under the Washington Business Corporation Act (the "***Act***") and shall have perpetual existence.

ARTICLE 3
PURPOSE AND POWERS

The purpose and powers of the corporation are as follows:

3.1 To engage in any lawful business.

3.2 To engage in any and all activities that, in the judgment of the Board of Directors of the corporation (the "***Board***"), may at any time be incidental or conducive to the attainment of the foregoing purpose.

3.3 To exercise any and all powers that a corporation formed under the Act, or any amendment thereto or substitute therefor, is entitled at the time to exercise.

ARTICLE 4
CAPITAL STOCK

4.1 Authorized Capital. The corporation shall have authority to issue 47,500,000 shares of capital stock, of which 37,500,000 shares will be common stock, without par or ascribed value per share (the "***Common Stock***"), and 10,000,000 shares will be preferred stock, without par or ascribed value per share (the "***Preferred Stock***").

4.2 Common Stock. Except to the extent rights, preferences, privileges or restrictions are granted to Preferred Stock or any series thereof, or as provided below, Common Stock has unlimited voting rights and is entitled to receive the net assets of the corporation upon dissolution. The relative rights, preferences, privileges and restrictions granted to or imposed upon the Common Stock and the holders thereof are as follows:

4.2.1 **Dividend Rights.** The holders of record of outstanding shares of Common Stock shall be entitled to receive, when, as and if declared by the Board, out of any funds of the corporation legally available therefor, such cash and other dividends as may be declared from time to time by the Board.

4.2.2 **Liquidation Rights.** In the event of any liquidation, dissolution or winding up of the affairs of the corporation, whether voluntary or involuntary, the holders of issued and outstanding shares of Common Stock shall be entitled to receive ratably, based on the total number of shares of Common Stock held by each, all the assets and funds of the corporation available for distribution to its shareholders, whether from capital or surplus, subject, however, to any preferential rights granted to any series of Preferred Stock to first receive such assets and funds.

4.2.3 **Voting Rights.** Each holder of Common Stock shall be entitled to one vote for each share of Common Stock held.

4.3 Preferred Stock. The authorized shares of Preferred Stock may be divided into and issued in series. Authority is vested in the Board, subject to the limitations and procedures set forth herein or as prescribed by law, to divide any part or all of such Preferred Stock into any number of series, to fix and determine relative rights and preferences of the shares of any series to be established, and to amend the rights

and preferences of the shares of any series that has been established but is wholly unissued. Within any limits stated in these Amended and Restated Articles of Incorporation (these "***Articles***") or in the resolution of the Board establishing a series, the Board, after the issuance of shares of a series, may amend the resolution establishing the series to decrease (but not below the number of shares of such series then outstanding) the number of shares of that series, and the number of shares constituting the decrease shall thereafter constitute authorized but undesignated shares. The authority herein granted to the Board to determine the relative rights and preferences of the Preferred Stock shall be limited to unissued shares, and no power shall exist to alter or change the rights and preferences of any shares that have been issued. Preferred Stock, or any series thereof, may have rights that are identical to those of Common Stock. Unless otherwise expressly provided in the designation of the rights and preferences of a series of Preferred Stock, a distribution in redemption or cancellation of shares of Common Stock or rights to acquire Common Stock held by a former employee or consultant of the corporation or any of its affiliates may, notwithstanding RCW 23B.06.400(2)(b), be made without regard to the preferential rights of holders of shares of that series of Preferred Stock.

4.4 Issuance of Certificates. The Board shall have the authority to issue shares of the capital stock of the corporation and the certificates therefor subject to such transfer restrictions and other limitations as it may deem necessary to promote compliance with applicable federal and state securities laws, and to regulate the transfer thereof in such manner as may be calculated to promote such compliance or to further any other reasonable purpose.

4.5 No Cumulative Voting. Shareholders of the corporation shall not have the right to cumulate votes for the election of directors.

4.6 No Preemptive Rights; Exception. No shareholder of the corporation shall have, solely by reason of being a shareholder, any preemptive or preferential right or subscription right to any stock of the corporation or to any obligations convertible into stock of the corporation, or to any warrant or option for the purchase thereof, except to the extent provided by resolution or resolutions of the Board establishing a series of Preferred Stock or by written agreement with the corporation.

4.7 Quorum for Meeting of Shareholders. A quorum shall exist at any meeting of shareholders if a majority of the votes entitled to be cast is represented in person or by proxy. In the case of any meeting of shareholders that is adjourned more than once because of the failure of a quorum to attend, those who attend the third convening of such meeting, although less than a quorum, shall nevertheless constitute a quorum for the purpose of electing directors, provided that the percentage of shares represented at the third convening of such meeting shall not be less than one-third of the shares entitled to vote.

4.8 Calling of Special Meeting of Shareholders. Special meetings of the shareholders for any purpose or purposes may be called at any time only by the Board, the Chairperson of the Board (if one be appointed), the Chief Executive Officer of the corporation or the President of the corporation. Special meetings of the shareholders may not be called by any other person or persons.

4.9 Shareholder Voting on Extraordinary Actions. The vote of shareholders of the corporation required in order to approve amendments to these Articles, a plan of merger or share exchange, the sale, lease, exchange, or other disposition of all or substantially all of the property of the corporation not in the usual and regular course of business, or dissolution of the corporation, shall be a majority of all of the votes entitled to be cast by each voting group entitled to vote thereon.

ARTICLE 5
DIRECTORS

5.1 Number of Directors. The number of directors of the corporation shall be fixed as provided in the Amended and Restated Bylaws of the corporation, as amended from time to time (the "***Bylaws***"), and may be increased or decreased from time to time in the manner specified therein.

5.2 Terms of Directors. From and after the effectiveness of these Articles (the "***Effective Time***"), the directors shall be divided into three (3) classes as nearly equal in size as is practicable, designated as Class I, Class II and Class III, respectively. Directors shall be assigned to each class in accordance with a resolution or resolutions adopted by the Board. At the first regularly-scheduled annual meeting of shareholders following the Effective Time, the term of office of the Class III directors shall expire and Class III directors shall be elected for a full term of three (3) years. At the second annual meeting of shareholders following the Effective Time, the term of office of the Class I directors shall expire and Class I directors shall be elected for a full term of three (3) years. At the third annual meeting of shareholders following the Effective Time, the term of office of the Class II directors shall expire and Class II directors shall be elected for a full term of three (3) years. At each succeeding annual meeting of shareholders, directors shall be elected for a full term of three (3) years to succeed the directors of the class whose terms expire at such annual meeting. Notwithstanding the foregoing provisions of this section, each director shall serve until his or her successor is duly elected and qualified or until his or her earlier death, resignation or removal. If the number of directors is hereafter changed, any newly created directorships or decrease in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as is practicable, *provided* that no decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

5.3 Removal of Directors. Neither the Board nor any individual director may be removed without cause. Subject to any limitation imposed by law, any individual director or directors may be removed with cause by the holders of the shares entitled to elect the director or directors whose removal is sought if, with respect to a particular director, the number of votes cast in favor of removing such director (or the entire Board) exceeds the number of votes cast against removal.

5.4 Vacancies. Any vacancies on the Board resulting from death, resignation, removal or other causes and any newly created directorships resulting from any increase in the number of directors shall be filled only by the affirmative vote of a majority of the remaining directors or the sole remaining director. Unless the Board otherwise provides in a notice of a special meeting of the shareholders given pursuant to the Bylaws or unless there are no directors in office, the shareholders shall not be entitled to vote to fill vacancies on the Board. The term of a director elected to fill a vacancy expires at the next election of directors by the shareholders.

5.5 Authority of Board of Directors to Amend Bylaws. Subject to the limitation(s) of RCW 23B.10.210, and subject to the power of the shareholders of the corporation to change or repeal the Bylaws (as limited by RCW 23B.02.060(4) and 23B.08.010(2)(b)), the Board is expressly authorized to make, amend or repeal the Bylaws of the corporation unless the shareholders in amending or repealing a particular Bylaw provide expressly that the Board may not amend or repeal that Bylaw.

ARTICLE 6
INDEMNIFICATION OF DIRECTORS AND OFFICERS

6.1 Definitions. The capitalized terms in this Section 6 shall have the meanings set forth in RCW 23B.08.500.

6.2 Indemnification Rights of Directors and Officers. The corporation shall indemnify and hold harmless each individual who is or was serving as a Director or officer of the Corporation or who, while serving as a Director or officer of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against any and all Liability incurred with respect to any Proceeding to which the individual is or is threatened to be made a Party because of such service, and shall make advances of reasonable Expenses with respect to such Proceeding, to the fullest extent permitted by law, without regard to the limitations in RCW 23B.08.510 through 23B.08.550 and RCW 23B.08.560(2); provided that no such indemnity shall indemnify any Director or officer from or on account of (1) acts or omissions of the Director or officer finally adjudged to be intentional misconduct or a knowing violation of law; (2) conduct of the Director or officer finally adjudged to be in violation of RCW 23B.08.310; or (3) any transaction with respect to which it was finally adjudged that such Director or officer personally received a benefit in money, property, or services to which the Director or officer was not legally entitled.

6.3 Amendment(s) to the Act. If, after the effective date of this Section 6.3, the Act is amended to authorize further indemnification of Directors or officers, then Directors and officers of the corporation shall be indemnified to the fullest extent permitted by the Act.

6.4 Non-Exclusive Rights. To the extent permitted by law, the rights to indemnification and advance of reasonable Expenses conferred in this Section 6.4 shall not be exclusive of any other right which any individual may have or hereafter acquire under any statute, provision of the Bylaws, agreement, vote of shareholders or disinterested directors, or otherwise. The right to indemnification conferred in this Section 6.4 shall be a contract right upon which each Director or officer shall be presumed to have relied in determining to serve or to continue to serve as such. Any amendment to or repeal of this Section 6.4 shall not adversely affect any right or protection of a Director or officer of the corporation for or with respect to any acts or omissions of such Director or officer occurring prior to such amendment or repeal.

6.5 Limitation of Directors' Liability. To the fullest extent permitted by the Act, as it exists on the date hereof or may hereafter be amended, a director of this corporation shall not be personally liable to the corporation or its shareholders for monetary damages for conduct as a director. Any amendment to or repeal of this Section 6.5 shall not adversely affect a director of this corporation with respect to any conduct of such director occurring prior to such amendment or repeal.

ARTICLE 7
AUTHORITY TO AMEND THE ARTICLES OF INCORPORATION

This corporation reserves the right to amend or repeal any of the provisions contained in these Articles in any manner now or hereafter permitted by the Act or by these Articles and the rights of the shareholders of this corporation are granted subject to this reservation.

7.1 Supermajority Voting. The amendment or repeal of the provisions in any of the following Articles or sections listed in this Section 7.1 shall require the affirmative vote of the holders of not less than two-thirds of all the votes entitled to be cast thereon by the shareholders of this corporation, voting together as a single group: Section 4.8 ("Calling of Special Meeting of Shareholders"), Article 5 ("Directors"), Article 6 ("Indemnification of Directors and Officers"), Section 7.1 ("Supermajority Voting") or Article 8 ("Bylaws").

7.2 Correction of Clerical Errors. The corporation shall have authority to correct clerical errors in any documents filed with the Secretary of State of Washington, including these Articles or any amendments hereto, without the necessity of special shareholder approval of such corrections.

ARTICLE 8
BYLAWS

The Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board, except that the Board may not amend or repeal any Bylaw that the shareholders (subject to the limitation(s) of RCW 23B.02.060(4) and 23B.08.010(2)(b)) have expressly

provided, in amending or repealing the Bylaw, may not be amended or repealed by the Board. The shareholders may also alter, amend and repeal the Bylaws or adopt new Bylaws (in each case subject to the limitation(s) of RCW 23B.02.060(4) and 23B.08.010(2)(b)); *provided*, *however*, that the affirmative vote of the holders of at least two-thirds of all the votes entitled to be cast by the shareholders of this corporation generally in the election of directors, voting together as a single class, shall be required for the shareholders of this corporation to alter, amend or repeal any provision of the Bylaws or to adopt new Bylaws.

ARTICLE 9
SAVINGS CLAUSE

If any provision of these Articles is declared by a court of competent jurisdiction to be invalid, unenforceable or contrary to applicable law, the remainder of these Articles shall be enforceable in accordance with their terms.

ARTICLE 10
EXCLUSIVE FORUM

Unless the corporation consents in writing to the selection of an alternative forum, the state courts located in King County, Washington (or, if the state courts located within King County, Washington do not have jurisdiction, the federal district court for the Western District of Washington) shall be the sole and exclusive forum for commencing and maintaining any proceeding (i) asserting a claim based on a violation of a duty under the laws of the State of Washington by any of the corporation's current or former directors, officers, or shareholders in such capacity, (ii) commenced or maintained in the right of the corporation, (iii) asserting a claim arising pursuant to any provision of the Act, these Articles or the Bylaws (as either may be amended from time to time), or (iv) asserting a claim concerning the corporation's internal affairs that is not included in clause (i) through (iii) above, in all cases to the fullest extent permitted by law and subject to the court's having personal jurisdiction over the indispensable parties named as defendants. This Article 10 does not apply to suits brought to enforce a duty or liability created by the Securities Exchange Act of 1934, as amended, or any other claim for which the federal courts have exclusive jurisdiction.

Unless the corporation consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act of 1933, as amended, subject to applicable law.

Any person or entity purchasing or otherwise acquiring any interest in any security of the corporation shall be deemed to have notice of and consented to the provisions of this Article 10.

Dated this ____ day of _____, 2021.

_____
Name: Ralph C. Derrickson
Title: President and Chief Executive Officer

CERTIFICATE OF OFFICER REGARDING

RESTATED ARTICLES OF INCORPORATION

OF

BSQUARE CORPORATION

BSQUARE Corporation, a Washington corporation the ("***Corporation***"), by Ralph C. Derrickson, its duly elected and qualified President and Chief Executive Officer, hereby delivers to the Secretary of State of the State of Washington for filing the Amended and Restated Articles of Incorporation, pursuant to RCW 23B.10.

1. The name of the Corporation is BSQUARE Corporation.

2. The Amended and Restated Articles of Incorporation have been amended and restated in their entirety, to read as set forth on Exhibit A attached hereto.

3. Such amendments and restatement were adopted by the board of directors of the Corporation on _____ ____, 2021.

4. Such amendments and restatement were duly approved by the shareholders of the Corporation on _____ ____, 2021 in accordance with the provisions of RCW 23B.10.030, 23B.10.040 and 23B.01.070 of the Washington Business Corporation Act.

5. The Amended and Restated Articles of Incorporation will be effective upon filing.

Dated as of _____ ____, 2021.

BSQUARE CORPORATION

_____
Name: Ralph C. Derrickson
Title: President and Chief Executive Officer

Exhibit A

AMENDED AND RESTATED ARTICLES OF INCORPORATION

[*See attached.*]

Appendix C

Chart Comparing Current Articles to Proposed Articles

Subject	Current Articles	Proposed Articles	Brief Rationale
Name and Purpose			
Name	BSQUARE Corporation	Bsquare Corporation	The Company regards the capital case spelling as more intuitive and generally preferable as a marketing matter
Purpose and Powers	Silent.	Broad purpose and power language that will not limit operations.	Update to conform with common practice
Capital Stock			
Authorized Capital	Specified number of Common and Preferred shares, each at no par value.	Similar, but adds defines terms for later use in Articles.	Similar language with stylistic differences.
Common Stock Rights	Silent.	Typical Common Stock rights.	Establishes rights and privileges typical of Common Stock.
Preferred Stock Rights	Identifies rights of Preferred Stock to be determined in a future designation.	Silent on the rights to be determined in a future designation.	Practically similar (rights of any Preferred Stock will be determined at issuance), but silence in Proposed Articles avoids limitations.
Issuance of Shares & Certificates	Silent.	Expressly contemplates the issuance of additional shares and appropriate certificates.	Update to add explicit authority.
No Cumulative Voting	The right to cumulate votes in the election of Directors shall not exist with respect to shares of stock of the Corporation.	Shareholders of the corporation shall not have the right to cumulate votes for the election of directors.	Simplifies and consolidates under Article 4: Capital Stock.
No Preemptive Rights; Exception	Shareholders of the Corporation shall have no preemptive rights to acquire additional shares of the Corporation.	Same, with additional detail.	Similar with additional detail in specifying that shareholders do not have preemptive rights to other securities offerings
Quorum for Meeting of Shareholders	Silent.	Quorum is majority of votes. Includes process for repeated failure to achieve a quorum to allow election of directors with one-third of votes.	The Proposed Articles build in a shareholder quorum threshold. This tracks the threshold in the Bylaws.
Calling of Special Meeting of Shareholders	Can be called by Chairman of the Board, President, the Board or holders of 25% of votes.	Can be called by the Board, the Chairperson of the Board, the Chief Executive Officer or the President. Shareholders cannot call a special meeting.	Eliminates the ability of shareholders to call a special meeting, which is unlikely in practice.
Shareholder Voting on Extraordinary Actions	Silent.	Specifies a voting threshold for major transactions of a majority of each voting class.	Separate class votes can be required by Washington law, and specifying the threshold here can be helpful.
Board of Directors			
Number of Directors	Board size of seven.	Board size set per Bylaws.	Proposed Articles are more consistent with general practice and allows greater flexibility.
Terms of Directors	Staggered Board terms with three classes.	Same, but expressly requires increases or decreases to Board size be allocated among classes.	Substantially the same with slightly more detail.

Subject	Current Articles	Proposed Articles	Brief Rationale
Removal of Directors	Allows shareholders to remove a Director or the entire Board with or without Cause at a meeting or by unanimous written consent.	Requires cause for removal of a Director or the entire Board. Votes for such removal must exceed the number of votes against removal based on the shares entitled to elect the Director(s)	Proposed Articles are more succinct and eliminate removal without cause. Proposed Articles are also silent on certain procedural aspects which may increase flexibility.
Vacancies	Vacancies may be filled by a majority of the remaining Directors, and the new Director finishes the prior Director's term.	Same, except that the Board may allow shareholders to vote to fill a vacancy and the term of the successor Director expires at the next annual meeting (rather than completing the term).	Proposed Articles allow greater flexibility. Expiration of term at next annual meeting is good governance practice.
Authority of Board of Directors to Amend Bylaws	Silent.	Subject to statutory limitations and the right of shareholders to amend the Bylaws, the Board is expressly authorized to make, amend or repeal the Bylaws unless the shareholders expressly provide otherwise.	Proposed Articles specifically address the Board's power to amend the Bylaws.
Indemnification of Directors and Officers			
Indemnification Rights of Directors and Officers	The corporation shall indemnify Directors and officers serving the corporation against Liability in a Proceeding threatened or initiated because of such service and make advances of reasonable Expenses to the fullest extent permitted by law. Advancement of Expenses will be made following an undertaking to repay such amounts if necessary. The corporation will indemnify Directors and officers who initiate suit against the corporation only for claims related to non-payment of valid indemnification claims or for claims approved by the Board.	Same, except silent on the undertaking regarding advancement of Expenses and on indemnification of claims initiated by Directors and officers.	The Proposed Articles do not address the process for advancement of Expenses (which are statutory). They are also silent on indemnification for claims initiated by Directors and officers.
Insurance	The Company may purchase Director and officer insurance.	Silent.	Streamlining purposes. D&O insurance is statutorily permitted.
Recovery of Unpaid Claims	A process for recovery of unpaid indemnification claims is articulated.	Silent	This is something that can be handled contractually rather than building it into the Articles.
Notice of Indemnification	If the Corporation indemnifies or advances expenses to a Director or officer pursuant to this Article 6 in connection with a Proceeding by or in the right of the Corporation, the Corporation shall report the indemnification or advance in writing to the shareholders with or before the notice of the next shareholders' meeting.	Silent.	This notice is a statutory requirement that doesn't need to be included in the Articles.
Limitation of Directors' Liability	Elimination of personal liability of Directors to the corporation for monetary damages to the fullest extent of the law with enumerated exceptions.	Same, except no enumeration of exceptions.	Streamlining. The exceptions are statutory and do not need to be enumerated here.

Subject	Current Articles	Proposed Articles	Brief Rationale
Authority to Amend the Articles of Incorporation			
Supermajority Voting	Silent.	The amendment or repeal of the provisions in any of the following Articles or sections listed in this Section 7.1 shall require the affirmative vote of the holders of not less than two-thirds of all the votes entitled to be cast thereon by the shareholders of this corporation, voting together as a single group: Section 4.8 ("Calling of Special Meeting of Shareholders"), Article 5 ("Directors"), Article 6 ("Indemnification of Directors and Officers"), Section 7.1 ("Supermajority Voting") or Article 8 ("Bylaws").	The proposed super-majority requirement to amend or repeal certain provisions of the Articles.
Correction of Clerical Errors	Silent.	The corporation shall have authority to correct clerical errors in any documents filed with the Secretary of State of Washington, including these Articles or any amendments hereto, without the necessity of special shareholder approval of such corrections.	Updated to provide greater flexibility for correcting clerical errors.
Other			
Bylaws	Silent.	Bylaws may generally be amended by the Board unless provided otherwise. The shareholders may amend the Bylaws with two-thirds majority of votes, voting together as a single class.	Requiring a two-thirds vote to amend or repeal the Bylaws protects the company from hostile actions by shareholders. This also ties with the other provision regarding Board amendment of the Bylaws.
Shareholder Actions by Consent	Shareholders may act by non-unanimous written consent.	Silent.	Silence effectively disallows non-unanimous written consent.
Savings Clause	If any provision of this Article 6 or any application thereof shall be invalid, unenforceable, or contrary to applicable law, the remainder of this Article 6, and the application of such provisions to individuals or circumstances other than those as to which it is held invalid, unenforceable, or contrary to applicable law, shall not be affected thereby.	If any provision of these Articles is declared by a court of competent jurisdiction to be invalid, unenforceable or contrary to applicable law, the remainder of these Articles shall be enforceable in accordance with their terms.	Current Articles include a savings clause as it relates to Article 6 (Indemnification). The Proposed Articles widens the scope of the provision.
Exclusive Forum	Silent.	State courts in King County (or federal courts in the Western District of Washington) are the sole and exclusive forum for certain corporate and securities claims.	Having a forum selection clause is an emerging practice that avoids facing litigating in multiple fora.

Subject	Current Articles	Proposed Articles	Brief Rationale
Registered Office	The address of the registered office of the Corporation is 1505 Westlake Avenue N., Suite 300, Seattle, Washington, and the name of the registered agent at such address is Michael J. Erickson.	Silent	Streamlining. The current registered office is not required.
Interested Transactions	Interest of one or more Directors or shareholders in a transaction does not invalidate the transaction; such interested party transactions must be disclosed to the Board.	Silent.	Unneeded in articles as there is a statutory framework in place. This also allows flexible governance by pushing the concept to company policies and committee charters.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____ to _____

Commission file number: 000-27687

BSQUARE CORPORATION
(Exact name of registrant as specified in its charter)

Washington	**91-1650880**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1415 Western Ave, Suite 700, Seattle, Washington 98101
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (425) 519-5900

Securities registered pursuant to Section 12(b) of the Act:

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	BSQR	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑ Smaller reporting company ☑ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2020 was approximately $17.5 million and was determined using the closing price of our common stock on that same date per the NASDAQ Stock Market ($1.59). The number of shares of common stock outstanding as of February 28, 2021: 13,298,150

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be delivered to shareholders in connection with the 2020 annual meeting of shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

BSQUARE CORPORATION

FORM 10-K

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on this Form 10-K ("Form 10-K") are not purely historical statements, discuss future expectations, contain projections of results of operations or financial condition, or state other forward-looking information. Those statements are subject to known and unknown risks, uncertainties, and other factors that could cause the actual results to differ materially from those contemplated by the statements. The "forward-looking" information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these so-called forward-looking statements by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "seeks" or "continue" or the negative of those words and other comparable words. You should be aware that those statements only reflect our predictions and are subject to risks and uncertainties. Actual events or results may differ substantially. Important factors that could cause our actual results to be materially different from the forward-looking statements include (but are not limited to) the following:

1) risks associated with the operation of our business generally, including:
   a) customer demand for our services and solutions;
   b) maintaining a balance of our supply of skills and resources with customer demand;
   c) effectively competing in a highly competitive market;
   d) the impact of the COVID-19 pandemic on us, our customers, and the global business environment;
   e) protecting our customers' and our data and information;
   f) risks from international operations including fluctuations in exchange rates;
   g) obtaining favorable pricing to reflect services provided;
   h) adapting to changes in technologies and offerings;
   i) risk of loss of one or more significant software vendors;
   j) making appropriate estimates and assumptions in connection with preparing our consolidated financial statements;
   k) maintaining effective internal controls; and
   l) changes to tax levels, audits, investigations, tax laws or their interpretation;
2) the impact of the general economy and economic and political uncertainty on our business;
3) risks associated with potential changes to federal, state, local and foreign laws, regulations, and policies;
4) risks associated with managing growth organically and through acquisitions;
5) risks associated with servicing our debt, the potential impact on the value of our common stock from the conditional conversion features of our debt and the associated convertible note hedge transactions;
6) legal liabilities, including intellectual property protection and infringement or the disclosure of personally identifiable information; and
7) the risks detailed from time to time within our filings with the Securities and Exchange Commission (the "SEC").

This discussion is not exhaustive but is designed to highlight important factors that may impact our forward-looking statements. Because the factors referred to above, as well as the statements included under the heading "Risk Factors" in this Form 10-K, including documents incorporated by reference therein and herein, could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement made by us or on our behalf, you should not place undue reliance on any forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. We are under no duty to update any of the forward-looking statements after the date of this Form 10-K to conform such statements to actual results.

All forward-looking statements, express or implied, included in this report and the documents we incorporate by reference and that are attributable to Bsquare Corporation and its subsidiaries (collectively, "we," "us," "Bsquare," or the "Company") are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that the Company or any persons acting on our behalf may issue.

PART I

Item 1. ***Business.***

Overview

Bsquare is a software and services company that designs, configures, and deploys technologies that solve difficult problems for manufacturers and operators of connected devices. Our customers choose Bsquare to help realize the promise of the Internet of Things (IoT) to transform their businesses. Our products include software that connect devices to create intelligent systems that are cloud-enabled, contribute critical data, and facilitate distributed control and decision making. Our services include 24/7 IoT operations that allow our customers to focus on their businesses while we take care of security, monitoring, and general technology updates. The opportunity to help companies explore and capture the value of IoT is attractive and growing. In the last two years alone, we helped hundreds of companies deploy and manage over two million devices. We operate large IoT systems for our customers with device fleets that range in size and complexity. We believe we offer a unique combination of expertise in device-level solutions, embedded operating systems, and IoT services and software that is valued by a global customer base, from start-ups to Fortune 100 companies, across a diverse set of industries.

Since our founding in 1994, Bsquare has been at the intersection of hardware and software. Today, that intersection is the "edge" where cloud-enabled devices connect to create intelligent systems, creating new demands for software, deployment, and operations. Bsquare is meeting those demands, making intelligent systems possible. We believe our technology is making people more productive, improving quality of life, and reducing demands on the resources of our planet.

Embedded Operating System Software and Services

Customers engage us because of our technical expertise in device operating system ("OS") image development and configuration, device software development and testing, and our experience in embedded and mobile systems design. Our long and successful history as a Microsoft Corporation ("Microsoft") embedded OS distribution and technology partner is a source of many customer opportunities and a pillar of our reputation in the IoT ecosystem. We believe working with Bsquare engineers can result in shorter development cycles, faster time-to-market, lower overall development costs, and a more robust product. Our software and configuration services are designed to help ensure that our customers' devices are secure, updateable, and operable as part of a connected IoT system. A decade ago, our customers typically built devices on a single OS. Today, they increasingly have a multi-OS product strategy. Accordingly, we believe that the need for our embedded OS expertise and services is expanding and accelerating. We recognize revenue and cost of sales for this segment of our business under the name "Partner Solutions".

Embedded OS Market

Our target market for OS software and services includes makers of connected, intelligent devices such as point-of-sale terminals, kiosks, tablets and handheld data collection devices, smart vending machines, ATMs, essential equipment in buildings and facilities environments, digital signs, and in-vehicle telematics and entertainment devices. These devices work on a variety of operating systems, including the most common: Windows IoT, Android, and Linux. They are deployed in various cloud environments, such as Microsoft Azure, Amazon Web Services ("AWS"), or Google Cloud, and are typically connected to a network via a wired or wireless connection. Our customers for these smart devices include world-class original equipment manufacturers ("OEMs"), original design manufacturers ("ODMs"), silicon vendors, and peripheral vendors.

IoT Software and 24/7 Operations Services

Our customers' devices are frequently components of complicated operating networks, creating new requirements for updating, maintaining and evolving the capabilities of devices in the fleet. Once configured and deployed, this device fleet then becomes part of an operational environment that requires long-term attention to the myriad challenges of IoT operations. In short, devices can no longer simply be sold, installed, and then forgotten. These demands have created operational burdens that are challenging to meet through traditional technologies and support models. For that reason, our customers are increasingly relying on Bsquare's extensive experience developing, deploying, and operating large IoT systems at scale. Our experience using Microsoft Azure and AWS cloud services is an asset we believe to be seldom found inside a customer's technology team. We believe outsourcing fleet management and 24/7 operations services to Bsquare can result in lower system development costs, greater security, better maintainability, lower operating costs, and improved return on investment ("ROI") for a customer's IoT system. We have built and now operate 24/7 mission critical IoT systems for customers of varying size and complexity, and we believe the software and processes we have used to achieve this success may be a sustainable competitive advantage and a potential opportunity for new revenue. We recognize revenue and cost of sales for this segment of our business under the name "Edge to Cloud".

IoT Software and Services Market

Our target market for our IoT software and services includes our OS and software OEM customers as well as companies that purchase from those OEMs and operate their devices as a fleet. This market represents business and industrial segments in a wide range of vertical markets such as retail, point of sale, medical equipment, gaming, buildings and facilities management, manufacturing, robotics, autonomous vehicles, utility management, and transportation. The IoT market continues to evolve as companies understand the possibilities and economics of IoT technology and operations. Increasingly, customers are realizing that

IoT operations are not core competencies of their business and that outsourcing operations can lower costs, reduce downtime, and mitigate the reputational risk of security and operational failures.

Bsquare Solutions Suite

We provide a suite of software, tools, and services to our customers that are packaged based on technical and business requirements that includes:

Embedded OS and System Software Sales and Support

Bsquare resells Windows IoT, Windows Embedded, and Windows Server IoT software as well as system utility software for Adobe and McAfee. We provide license compliance services, technical support, and manufacturing support.

OS Configuration Services

We consult with customers to create a manufacturable image for a specific version of OS software (Windows IoT, Linux, and Android) based on the unique requirements of the hardware and the intended operating environment. Our software and services are designed to help ensure the system is secure, recoverable, maintainable, upgradable, and operable as part of an intelligent system.

Fleet Transition Services

Our software tools and professional services help transition a collection of devices to a specific OS and software configuration in preparation for management and operations as part of an intelligent system. We work with companies to understand and bring together multiple versions of OS software and hardware, connectivity, security, personnel, operating hours, and other factors that could affect previously deployed equipment.

IoT Transition

Bsquare offers software utilities and professional services to migrate a fleet of devices to 24/7 IoT operations, allowing individual device and system performance to be managed centrally and integrated into existing business systems.

24/7 IoT Operations

Our outsourced IoT operations services include 24/7 infrastructure monitoring, automated issue escalation, incident response and troubleshooting, management protocols, uptime and service level reporting, and cloud instance management.

Data Engineering

We offer services to assist customers with the development and implementation of IoT systems and data-driven operations, including machine learning and predictive analytics that allow IoT systems to operate as an intelligent system.

Software Distribution

We maintain distribution agreements with multiple third-party software vendors. Our ability to resell these third-party software products, whether as stand-alone products or in conjunction with our own proprietary software and engineering service offerings, provides our customers with a comprehensive solution for their device project needs:

- For over 20 years, we have been a Microsoft Authorized Distributor of Windows Embedded and IoT operating system software and licenses, including major product families such as Windows 10 IoT Enterprise, Windows Server IoT, and SQL Server IoT. We are also authorized to sell Windows IoT operating systems in Canada, the United States, Argentina, Brazil, Chile, Mexico, Peru, Venezuela, Puerto Rico, Columbia, and several Caribbean countries.
- We are an authorized distributor for Adobe Flash technologies and Adobe Reader. We have the right to distribute Adobe Flash Lite licenses on a worldwide basis.
- We are an authorized distributor of McAfee security software in North America.

The majority of our revenue continues to be derived from reselling Microsoft Windows Embedded and IoT operating system software to device makers. The sale of Microsoft operating systems has historically accounted for substantially all of our Partner Solutions revenue.

Relationship with Microsoft

We have a long-standing relationship with Microsoft, which is important to the continuing success of our business:

- We have been one of Microsoft's distributors of Windows Embedded and IoT operating systems for over 20 years.
- We have been a distributor of Microsoft Windows Mobile operating systems since November 2009.
- We are a Gold level Data Analytics partner.
- We are a Gold level Application Integration partner.
- We are Silver level Application Development partner.

- Microsoft has engaged us on various engineering service projects.
- We work closely with Microsoft executives, developers, product managers and sales personnel. We leverage these relationships in a variety of ways, including:
    a. We gain early access to new Microsoft embedded software and other technologies.
    b. We leverage co-marketing resources, content and strategies from Microsoft, including market development funds, to support our own marketing and sales efforts.
    c. We participate in Microsoft-sponsored trade shows, seminars, and other events.
    d. We receive sales leads from Microsoft.
    e. We receive rebates from Microsoft based upon the achievement of predefined sales objectives.

See Item 1A, "Risk Factors," for more information regarding our relationship with Microsoft.

Competition

Microsoft controls who can distribute its OS software. Microsoft Authorized Distributors that we compete with include Advantech, Inc., Arrow Electronics, Inc., Avnet, Inc., and Dell Computer, Inc. Our competition is not limited to these Microsoft Authorized Distributors. We compete with other consulting firms for services related to device design and development, system software development, and engineering firms that offer similar services.

Competition for our IoT software and operating services include:

- Large, established enterprise software and solution providers such as International Business Machines, Oracle Corporation, SAP SE, and SAS Software, Inc.
- Cloud IoT providers such as AWS and Microsoft Azure. Although we are closely partnered with AWS and Microsoft, there are elements of their solutions with which we compete directly.
- Mid-sized companies engaged in business transitions similar to our own, including PTC Inc. and TTTech Industrial North America, Inc.
- Startups funded to enter the IoT market, including C3.AI, Inc., Losant IOT Inc., and TeamViewer US, Inc.

The market for device software and engineering services is competitive and we face competition from the following:

- Our current and potential customers' internal engineering and research and development departments, which may seek to provide their own IoT-related services or develop their own software solutions which could compete with our own service offerings and products.
- Engineering service firms, including offshore development companies, such as Adeneo, Symphony Teleca, and Wipro.
- ODMs, particularly those in Taiwan and China, with their own software development capabilities.
- Contract manufacturers with their own software development capabilities.

Some of our competitors have greater financial and other resources than we do. They may also focus on only one aspect of our business or offer complementary products that can be integrated with our products. As we develop and bring to market new software and service offerings, we may begin competing with companies with which we have not previously competed. Further, as we expand the geographic markets into which we sell our services and software solutions, or increase our penetration therein, we may expect to increasingly compete with companies with which we have not previously competed. It is also likely that new competitors will enter the market or that our competitors will form alliances, including alliances with AWS or Microsoft, that may enable them to rapidly increase their market share. New competitors may have lower overhead than we do and may be able to undercut our pricing. We expect that competition will increase as other established and emerging companies enter the connected device market, and as new products and technologies are introduced.

Neither AWS nor Microsoft has agreed to an exclusive arrangement with us, nor has either agreed not to compete against us. AWS may decide to focus on providing products or services that compete directly with our products and services or partner with other solution providers that compete with us. Microsoft may decide to bring in-house more of the core-embedded development services and expertise that we currently provide, possibly resulting in reduced software and service revenue opportunities for us. The barrier to entering the market as a provider of Microsoft-based smart connected systems software and services is relatively low. In addition, Microsoft has created marketing programs to encourage systems integrators to work on Windows operating system software and services, including in the evolving IoT market. These systems integrators may be given substantially the same access by Microsoft to Microsoft technology as we are.

Sales and Marketing

We market our products and professional engineering services utilizing a direct sales model. We have sales personnel in the United States and in the United Kingdom. Historically, we have not made significant use of resellers, channel partners, representative agents or other indirect channels. Key elements of our sales and marketing strategy include direct marketing, digital marketing, content marketing, trade shows, event marketing, public relations, analyst relations, social media properties, customer and strategic alliance partner co-marketing programs, and a comprehensive website.

Our sales and marketing efforts with embedded OS customers will also be beneficial in our efforts to attract customers for our IoT software and services, and vice versa. The two markets we have traditionally served are converging, and our sales and marketing will increasingly reflect that convergence. The cross-selling opportunities between our two primarily markets could be a

source of strength as we continue to expand our presence and reputation among the makers of IoT devices and those responsible for IoT device operations.

International Operations

Our international operations outside of North America are conducted through our offices in Trowbridge, UK. We maintain a European sales and marketing presence through the UK office exclusively in support of our IoT software and services, reported in our Edge to Cloud business segment. The majority of our global technical personnel also work from the UK office. In the first quarter of 2020 we ceased operations in Taipei, Taiwan.

Our OEM Distribution Agreement with Microsoft for the sale of Microsoft Windows IoT operating systems is currently restricted to North America. As a result, the majority of our revenue continues to be generated from North America. Revenue generated from customers located outside of North America was approximately 14% and 15% of total revenue in 2020 and 2019 respectively.

Human Capital

We had total headcount of 70 on December 31, 2020, with 38 people located in North America and 32 in the United Kingdom. Of the 70 people currently working at the company, 16 are contractors working less than full time on an as-needed basis, with the other 54 team members comprised of full time or near full-time employees. As compared to December 31, 2019, our headcount was smaller by five, primarily as a result of our efforts throughout 2020 to re-align our organization around a sustainable cost structure.

In addition to the personnel cost reductions pursued in 2020, we shifted some professional engineering service employees from traditional consulting engagements to product development activities. As we identify new product opportunities and take new product offerings to market, we may continue to shift engineering personnel to perform research and development activities. We may also occasionally shift personnel back to consulting project work, as needed.

In mid-March 2020, in response to local government “stay at home,” “shelter-in-place” and similar orders intended to reduce the spread of the COVID-19 coronavirus, we closed our offices in Trowbridge in the United Kingdom and stopped all non-essential activities in our Bellevue, Washington office. Bsquare’s operations are, at the time of this filing, fully virtual.

In January of 2020, we started planning for the end of our Bellevue office lease. We reviewed how and where we work and collaborate, commuting patterns, costs, and our space requirements. With our engineering team in the UK and customers all over the globe, collaborating over long distances and time zones was an operating imperative. We purchased and deployed technologies that enabled and enhanced remote work and had asked our team members to begin to consider how they could begin to work more often from remote locations. This planning work allowed us to move seamlessly to virtual operations when the time came.

In June of 2020, in the midst of the pandemic, we moved our corporate headquarters from Bellevue, Washington, to Seattle, Washington. From the outset, we conceived of our new location as a collaboration space and we refer to it as the “Seattle Collaboration Space” or the “SCS”, rather than as a traditional office. While the new facility has remained largely unoccupied, we believe it will serve us well and we look forward to hosting visitors when it is safe again.

Diversity and Inclusion

In 2020, we formed a company-wide Anti-racism Task Force to help us reckon with the ways in which our company and the technology industry at large have contributed to systemic racism in both the US and the UK. In this area, we favor action over performative speech. We are expanding our recruiting outreach to find candidates from communities currently underrepresented in technology companies and are renewing our commitment to inclusive hiring practices. We are particularly interested in building a team composed of people who have made diversity, equity, and inclusion in the workplace a central part of their professional journey. We are also holding our partners accountable to their own actions in pursuit of racial equity, and we are offering every employee a day of Civil Engagement Leave to vote, volunteer in their community, or participate in other civic activities.

Compensation and Benefits

We strive to provide market-competitive compensation and benefits that attract and retain employees who values align with our mission and goals. Our compensation packages include combinations of competitive base pay, sales commissions, performance based short-term incentives, health care, retirement benefits, paid time off and family leave. In addition, we offer employees the benefit of equity ownership in the Company through stock option grants. We also provide access to a variety of health and wellness resources.

Intellectual Property and Other Proprietary Rights

We strive to protect our intellectual property rights primarily through copyright, trademark, and trade secret laws, through contractual arrangements, and occasionally through patent filings. While we cannot be certain that our efforts will be effective to prevent the misappropriation of our intellectual property, or to prevent the development and design by others of products or technologies similar to, or competitive with, those developed by us, we plan to continue to pursue appropriate protections for our intellectual property.

Additionally, because a significant portion of our revenue relates to the sale of third-party software products, we also rely on our partners, particularly Microsoft, to appropriately protect their own intellectual property.

See Item 1A, “Risk Factors,” for more information regarding our intellectual property and other proprietary rights.

Available Information

We were incorporated in the State of Washington in July 1994. Our principal office is located at 1415 Western Ave, Suite 700, Seattle, Washington 98101, and our telephone number is (425) 519-5900. Our website address is www.bsquare.com. Information contained on or that can be accessed through our website is not a part of this Form 10-K.

Our stock is traded on the NASDAQ Capital Market under the symbol BSQR. Our website may be visited at www.bsquare.com. We electronically file with or furnish to the Securities and Exchange Commission (SEC) our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. We make available on our website, free of charge, copies of these reports, as soon as reasonably practicable after electronically filing such reports with, or furnishing them to the SEC.

Item 1A. ***Risk Factors*****.**

As discussed under Item 1 of Part I, "Business—Cautionary Note Regarding Forward-Looking Statements," our actual results could differ materially from those expressed in our forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed below. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial but later emerge as material, may also impair our business operations. If any of the following risks occur, our business, financial condition, operating results, cash flows and the trading price of our common stock could be materially adversely affected.

Risks Related to General Business Conditions

If we are not successful in developing and delivering competitive product and services offerings that keep pace with technological changes and needs, or if our products and services fail to gain or maintain traction with potential customers, our business would be negatively impacted.

Throughout 2020, we continued to update our product strategy to bring to market technologies and related services that build on our history of helping our customers deploy and operate intelligent devices. While we will continue to meet customer commitments previously made, we are developing new products and services that may expand our opportunities in the IoT market. The attractiveness of these new offerings remains uncertain, as does the size of the investment required to bring them to fruition. Our strategy to focus on the IoT market is subject to a number of additional risks and the occurrence of any of them could harm our business:

- The significant investment of time and financial and other corporate resources required;
- Customer acceptance of our IoT-related product and service offerings;
- Our ability to cross sell customers;
- The ROI model for IoT, which has proven to be elusive for many customers, could further delay adoption of IoT solutions by the market;
- Because IoT services are a relatively new offering, the sales cycle may be longer than we anticipate, and;
- We may be unable to grow our IoT-related services business rapidly enough to reach profitability in 2021.

Our marketplace is highly competitive, which may result in price reductions, lower gross profit margins and loss of market share.

The competition in the growing market for IoT-related software and engineering services is significant. Further, we anticipate that we will encounter and attract attention from increasing competition from a number of new software and service providers as we continue to focus on this market in 2021 and beyond, and as we expand our IoT-related service offerings. We currently face, or expect to face, competition from the following:

- Our current and potential customers' internal engineering and research and development departments, which may seek to provide their own IoT services and/or develop their own software solutions which could compete with our IoT-related service offerings and products;
- Microsoft Windows IoT and Windows Mobile operating system distributors such as Advantech Co, Letc., Arrow Electronics, Inc., Avnet, Inc. and Dell Computer, Inc.; and
- Cloud IoT providers such as AWS and Microsoft Azure. Although we are closely partnered with AWS and Microsoft, there are elements of their solutions with which we compete directly;
- Mid-sized companies engaged in business transitions similar to our own, including and TTTech Industrial North America, Inc. and PTC Inc.; and
- Startups funded to enter the IoT market, including C3.AI, Inc., Losant IOT, Inc., and TeamViewer US, Inc.

Some of our competitors have greater financial and other resources than we do. They may also focus on only one aspect of our business or offer complementary products that can be integrated with our products. As we develop and bring to market new software products and service offerings, we may begin competing with companies with which we have not previously competed. Further, as we expand the geographic markets into which we sell our services and related software solutions, or increase our penetration therein, we may expect to increasingly compete with companies with which we have not previously competed. It is also likely that new competitors will enter the market or that our competitors will form alliances, including alliances with AWS or Microsoft, that may enable them to rapidly increase their market share. New competitors may have lower overhead than we do and may be able to undercut our pricing. We expect that competition will increase as other established and emerging companies enter the connected device market, and as new products and technologies are introduced.

Neither AWS nor Microsoft has agreed to any exclusive arrangement with us, nor has either agreed not to compete with us. AWS may decide to focus on providing products or services that compete directly with our products and services or partnering with other solution providers that compete with us. Microsoft may decide to bring more of the core embedded development services and expertise that we provide in-house, possibly resulting in reduced software and service revenue opportunities for us. The barrier to entering the market as a provider of Microsoft-based smart connected system software and services is relatively low. In addition, Microsoft has created marketing programs to encourage systems integrators to work on Windows IoT and Windows Mobile operating system software and services, including in the evolving IoT market. These systems integrators may be given substantially the same access by Microsoft to Microsoft technology as we are.

The unprecedented nature of the COVID-19 pandemic creates uncertainty for Bsquare and our customers, and for the overall global business environment.

As the scope and impact of the COVID-19 pandemic continue to evolve, a number of potential risks to our business may emerge and many have already affected our business and our financial results. We may face ongoing challenges selling or

delivering our software and services, as our employees and many of those of our customers work from home, are unable to attend company and industry events, and face restrictions on travel and in-person meetings. Closures of manufacturing facilities and warehouses, or staffing shortages, continue to disrupt supply and distribution chains. Our customers could continue to experience a slow-down in demand for their products, decreased budgets, or delayed business initiatives, further reducing the need for our software and services. If our customers' global supply chains are disrupted because of COVID-19, they may not be able to meet demands for their end-product and they may reduce or eliminate their purchases from Bsquare for an uncertain period of time, if not permanently. Our customers may be slow to collect from their customers or otherwise face liquidity problems, which may cause delays in satisfaction of their financial obligations to us. Some of our customers may be forced to reduce their workforce through layoffs or furloughs, to cease operations temporarily, or, in extreme cases, declare bankruptcy. In those situations, disruptions to our business could range from a loss of key customer relationships to an inability to timely collect potentially significant receivables.

We experienced a reduction in sales in our Partner Solutions segment since the second quarter of 2020 which we believe is primarily the result of the pandemic. The adverse effects of the COVID-19 pandemic on our financial results may continue for an unknown period of time. The extent, depth, and duration of the impact of the COVID-19 pandemic on our operational and financial performance will depend on many factors, including the on-going rate of spread of the pandemic, variants of the coronavirus that causes COVID-19, and the speed with which vaccines are manufactured, distributed and delivered. Specifically, our customers' demand for our products is uncertain and is likely affected by disruptions in their component supply chains, their own sales cycles, their industry verticals, their ability to sell through traditional distribution channels, their ability to convene or attend employee or industry events, or other factors created and made persistent by the uncertain COVID-19 environment. The decline in Partners Solutions revenue experienced in the second, third and fourth quarters of 2020 suggest the effect of these disruptions can be significant. The lingering economic effects of COVID-19, even after resolution of the immediate public health crisis, may result in adverse conditions for our business that may impact our financial condition or results.

Our operating results may be adversely affected by changing economic and market conditions and the uncertain geopolitical environment.

Uncertain economic and political conditions in the U.S. and worldwide have from time to time contributed, and may in the future contribute, to volatility in the technology industries at large, particularly in an emerging market such as IoT. These factors could potentially result in reduced demand for our products and services as a result of constraints on IT-related capital spending by our customers; purchasing delays; payment delays adversely affecting our cash flow and revenue; and difficulty in accurate budgeting and planning. If global economic and market conditions, or economic conditions in key markets, remain uncertain or deteriorate, we may experience material impacts on our business, operating results and financial condition.

We received a PPP loan, which may not be forgivable and may subject us to litigation or public scrutiny that harms our business.

In April 2020, we received loan proceeds of $1.6 million under the original Paycheck Protection Program ("PPP"), which provided for loans to qualifying companies. No payments of principal or interest were due during an initial deferral period, and up to 100% of principal and accrued interest is forgivable if we used the PPP loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and otherwise comply with PPP requirements. We have used the proceeds of the PPP loan for eligible purposes and expect to pursue forgiveness; however, we may have taken or may in the future take action that could inadvertently cause some or all of the PPP loan to become ineligible for forgiveness, which may reduce our liquidity and harm our business, financial condition and results of operations.

The rules surrounding the forgiveness of PPP funding are subject to the political and economic climate and could change, altering our obligations for repayment. Furthermore, if the media, watch groups, government officials or others portray us as a business that should not have availed itself of PPP funding, we may face negative publicity that harms our business and operations.

We may be subject to product liability, infringement or other legal claims that could result in significant cost and ongoing liabilities.

Our software license and service agreements with our customers typically contain provisions designed to limit our exposure to potential product liability, infringement and other legal claims. However, it is possible that these provisions may be ineffective under the laws of certain jurisdictions or that our customers may not agree to these limitations. Although we have not experienced any product liability or infringement claims to date, as our business focus continues to transition to the sale of our own proprietary products, the sale and support of our products and services may be subject to such claims in the future. There is a risk that any such claims or liabilities may exceed, or fall outside, the scope of our insurance coverage, and we may be unable to obtain adequate liability insurance in the future. A product liability, infringement or other legal claim brought against us, whether successful or not, could negatively impact our business and operating results.

Our common stock has experienced and may continue to experience price and volume fluctuations, which could lead to costly litigation for us and make an investment in us less appealing.

Stock markets are subject to significant price and volume fluctuations that may be unrelated to the operating performance of particular companies and the market price of our common stock may therefore frequently change as a result. For example, during the year ended December 31, 2020, the high and low closing prices of our common stock were $1.83 and $0.93 per share, respectively, but in February 2021 our closing price reached $8.40 per share, and we have not had any recent changes in our financial condition or results of operations that is consistent with the recent change in our stock price. In addition, the market price of our common stock has fluctuated and may continue to fluctuate substantially due to a variety of other factors, including quarterly fluctuations in our results of operations (including as a result of fluctuations in our revenue recognition), our ability to execute on our current growth strategy in a timely fashion, announcements about technological innovations or new products or services by us or our competitors, market acceptance of new products and services offered by us, developments in the IoT market, changes in our relationships with our suppliers or customers, our ability to meet analysts' expectations, changes in the information technology environment, changes in earnings estimates by analysts, sales of our common stock by existing holders and the loss of key personnel. Possible exogenous incidents and trends may also impact capital markets and our own common stock prices, including

but not limited to foreign and cross border altercations, political unrest, cyberterrorism on a global scale, and increasingly disruptive weather systems.

In the past, following periods of volatility in the market price of a company's stock, class action securities litigation has often been instituted against such companies. Such litigation, if instituted against us, could result in substantial costs and diversion of management's attention and resources, which would materially adversely affect our business, financial condition and operating results.

Our common stock may become the target of a "short squeeze."

In the past several weeks prior to the filing of this Annual Report on Form 10-K, securities of certain companies have increasingly experienced significant and extreme volatility in stock price due to short sellers of shares of common stock and buy-and-hold decisions of longer investors, resulting in what is sometimes described as a "short squeeze." Short squeezes have caused extreme volatility in those companies and in the market and have led to the price per share of those companies to trade at a significantly inflated rate that is disconnected from the underlying value of the company. Sharp rises in a company's stock price may force traders in a short position to buy the stock to avoid even greater losses. Many investors who have purchased shares in those companies at an inflated rate face the risk of losing a significant portion of their original investment as the price per share has declined steadily as interest in those stocks have abated. We may be a target of a short squeeze, and investors may lose a significant portion or all of their investment if they purchase our shares at a rate that is significantly disconnected from our underlying value.

Large customers with significant resources may resort to litigation to recoup economic loss and other damages caused by what those customers perceive to be a deficiency in our products or a breach in our contractual arrangements.

We have a number of larger customers that have entered into longer-term contracts for our products and services. Further, we have actively engaged with those customers in recent months to retool our previously delivered products and to improve our previous agreements. Despite these efforts and investments, new issues may arise, or previous problems may re-occur, causing these customers to choose to initiate litigation against us. While we have no indication that these customers intend to pursue litigation, a decision to do so could cause us to incur significant defense costs, which would be significantly distracting, and may damage our reputation in our markets.

Privacy concerns and laws, evolving regulation of cloud computing, cross-border data transfer restrictions and other domestic or foreign regulations may limit the use and adoption of our products and services and adversely affect our business.

Regulation related to the provision of services on the internet is evolving and increasing, as federal, state and foreign governments continue to adopt new laws and regulations addressing data privacy and the collection, processing, storage and use of personal information, such as the E.U.'s Data Protection Directive and General Data Protection Regulation ("GDPR") and the California Consumer Privacy Act ("CCPA"). Further, laws and regulations are increasingly aimed at the use of personal information for marketing purposes, such as the E.U.'s ePrivacy Directive and ePrivacy Regulation. Country-specific laws and regulations are subject to new and differing interpretations and may be inconsistent among jurisdictions. Existing laws and regulations, as well as future requirements, could reduce demand for our products and services or restrict our ability to store and process data or, in some cases, impact our ability to offer our products and services in certain locations or our customers' ability to deploy our solutions globally. The costs of compliance with and other burdens imposed by laws, regulations and standards such as GDPR and CCPA may also limit the use and adoption of our products and services, reduce overall demand for our products and services, lead to significant fines, penalties or liabilities for noncompliance, or slow the pace at which we close sales transactions, any of which could harm our business. Furthermore, concerns regarding data privacy may cause our customers' customers to resist providing the data necessary to allow our customers to use our products and services effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products and services and could limit adoption of our cloud-based solutions.

Changing growth strategies, negative business conditions, changes in useful lives, and other factors may negatively affect the carrying value of the intangible assets and goodwill we have acquired.

We evaluate goodwill and intangible assets for impairment on an annual basis or more frequently when an event occurs, or circumstances change that indicate that the carrying value may not be recoverable. Business conditions and other factors may require us to reassess the useful lives associated with intangible assets. Reductions in operating cash flows or projected cash flows of our reporting units could result in an impairment charge that would negatively impact our operating results.

It might be difficult for a third party to acquire us even if doing so would be beneficial to our shareholders.

Certain provisions of our articles of incorporation, bylaws and Washington law may discourage, delay or prevent a change in the control of us or a change in our management, even if doing so would be beneficial to our shareholders. Our Board of Directors has the authority under our articles of incorporation to issue preferred stock with rights superior to the rights of the holders of common stock. As a result, preferred stock could be issued quickly and easily with terms calculated to delay or prevent a change in control of our company or make removal of our management more difficult. In addition, our Board of Directors is divided into three classes. The directors in each class serve for three-year terms, one class being elected each year by our shareholders. This system of electing and removing directors may discourage a third party from making a tender offer or otherwise attempting to obtain control of our company because it generally makes it more difficult for shareholders to replace a majority of our directors. In addition, Chapter 19 of the Washington Business Corporation Act generally prohibits a "target corporation" from engaging in certain significant business transactions with a defined "acquiring person" for a period of five years after the acquisition, unless the transaction or acquisition of shares is approved by a majority of the members of the target corporation's Board of Directors prior to the time of acquisition. This provision may have the effect of delaying, deterring or preventing a change in control of our company. The existence of these anti-takeover provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock.

Risks Related to Our Business Operations

Investments in new products and services may not deliver the returns that were anticipated when the development process was initiated, which will have a detrimental effect on our financial results.

As we bring new products and services to market, the acquisition rate, amount, and profitability of the revenue produced by these new offerings will be highly uncertain. Customers may not choose to adopt our technologies or may choose to adopt them more slowly than expected. The investment models that caused us to initiate product development efforts may have contained faulty assumptions about customer adoption rates and/or pricing. As a result, we may be required to sustain losses from product development for a longer period than expected, which could harm our financial results and diminish our ability to make additional investments in new products or in improving our existing set of products and services.

Expected operating efficiencies from our restructuring plans may not be realized as anticipated.

Throughout 2019 and 2020, we continued our efforts to reduce unnecessary or excessive costs, with particular emphasis on personnel costs, in order to better align our organizational structure with our strategic focus. Factors which may affect the potential operating efficiencies we realize from our restructuring plans include the adverse impact of job eliminations, uncertainties associated with loss of customer and vendor confidence, potential negative impact on sales and customer service as well as factors outside of our control such as changes in the economic environment. We may not realize the anticipated benefits under our restructuring plans, which could result in additional restructuring efforts. If our restructuring plans are not successful, our business and results of operations may be negatively impacted.

The efforts to improve our cost structure and business outlook could result in the departure of key personnel or in costly employment-related litigation. Such outcomes would adversely affect our business and financial results.

After right-sizing the organization throughout 2019 and 2020, we now operate with single and primary points of function and expertise for some positions. These ongoing changes, combined with the tight labor market for technology employees, could cause the sudden departure of key individuals, which could in turn have a detrimental effect on our ability to innovate rapidly and serve our customers. Further, because the market for technology employment remains highly competitive, filling key vacancies may extend these negative effects. Further, employees who have had or who may have in the future their employment relationship terminated, or who are simply disgruntled with the direction of the company's strategy may decide to pursue litigation against us or may choose to disparage us in social media. These activities could damage our reputation, divert our attention from operating our business, and otherwise cause our business to suffer.

Our international operations expose us to greater intellectual property, management, collections, regulatory and other risks.

Customers outside of North America generated 14% and 15% of our total revenue in 2020 and 2019, respectively. We currently have sizable operations outside of North America and in the United Kingdom ("U.K."). Our international activities and operations expose us to a number of risks, including the following:

- Greater difficulty in protecting intellectual property due to less stringent foreign intellectual property laws and enforcement policies;
- Longer collection cycles than we typically experience in North America;
- Unfavorable changes in regulatory practices and tariffs;
- Compliance with complex regulatory regimes or restrictions on import and export of our goods and services;
- Complex and/or adverse tax laws and/or changes thereto. Additionally, we may be subject to income, withholding and other taxes for which we may realize no current benefit despite the existence of significant net operating loss and tax credit carryforwards in the U.S.;
- Loss or reduction of withholding tax exemptions;
- The impact of fluctuating exchange rates between the U.S. dollar and foreign currencies;
- General economic and political conditions in international markets which may differ from those in the U.S.;
- Increased exposure to potential liability under the Foreign Corrupt Practices Act;
- Added cost and administrative burden associated with creating and operating business structures in other jurisdictions;
- Potential labor costs and risks associated with employees and labor laws in other geographies; and
- The inherent risks of working in a certain highly regulated and/or controlled economies where relationships between company management and government officials is critical to timely processing of approvals required to conduct business.
- On January 31, 2020, the U.K. exited the E.U., commonly referred to as "Brexit". As the long-term implications of Brexit become clear, it is possible that there will be greater restrictions on imports and exports between the U.K. and E.U. countries and increased regulatory complexities, which could adversely impact our operations and business in both the U.K. and the E.U.

These risks could have a material adverse effect on the financial and managerial resources required to operate our foreign offices, as well as on our future international revenue, which could negatively impact our business and operating results.

As our customers seek more cost-effective locations to develop and manufacture their products, particularly overseas locations, our ability to continue to sell our software products and services to these customers could be adversely affected, which could negatively impact our revenue and operating results.

Due to competitive and other pressures, some of our customers have moved, and others may seek to move, the development and manufacturing of their smart, connected systems to overseas locations, which may limit our ability to sell our software and services to these customers. As an example, under our current arrangements with Microsoft, we are currently only able to sell Microsoft Windows IoT operating systems to our customers in the United States, Canada, the Caribbean (excluding Cuba), Mexico, and the European Free Trade Association. If our customers, or potential customers, move their manufacturing

overseas to locations in which our business may be limited, we may be less able to remain competitive, which could negatively impact our revenue and operating results.

Past acquisitions have proven difficult to integrate, and future acquisitions, if any, could disrupt our business, dilute shareholder value and negatively affect our operating results and may not accrete to our revenue or other operating results or to our business generally.

We have acquired the technologies, assets and/or operations of other companies in the past and may acquire or make investments in companies, products, services and technologies in the future as part of our growth strategy. If we fail to properly evaluate, integrate and execute on our acquisitions and investments, our business and prospects may be seriously harmed. In addition, acquisitions may not be as accretive to our revenue or other operating results as expected. To successfully complete an acquisition, we must properly evaluate the business, technology, market and management team of the acquisition target, accurately forecast the financial impact of the transaction, including accounting charges and transaction expenses, integrate and retain personnel, combine potentially different corporate cultures and effectively integrate products, research and development, sales, marketing and support operations. If we fail to do any of these, we may suffer losses and impair relationships with our employees, customers and strategic partners. Additionally, acquisition activities may distract management from day-to-day operations. We also may be unable to maintain consistently uniform standards, controls, procedures and policies across our entire business as a result, and significant additional demands may be placed on our management and our operations, information services and financial, legal and marketing resources. Finally, acquired businesses may result in unexpected liabilities and contingencies, which may involve compliance with foreign laws, payment of taxes, labor negotiations or other unknown costs and expenses, which could be significant.

We could become subject to taxation in jurisdictions in which we do not believe we currently have tax nexus, which could expose us to additional tax liability that we have not been subject to in the past.

We sell in many jurisdictions across the United States. We believe we do not have nexus in most of these jurisdictions and, therefore, we believe we are not subject to sales, franchise, income and other state and local taxes in such jurisdictions. However, if we are determined to have tax nexus in other jurisdictions (as a result of more aggressive interpretations of nexus by taxing jurisdictions or otherwise) and we are unable to pass through this cost to our customers, our tax expense will increase which will negatively affect our results of operations. Further, because state and local tax laws are becoming increasingly complex, we anticipate that our cost to monitor our state and local tax compliance will increase which will negatively affect our results of operations. Additionally, we may have unknown tax exposure in a state or local tax jurisdiction because of recent tax law changes of which we are unaware, and the resulting liability could be significant and would negatively affect our results of operations.

Changes in our effective tax rate may impact our results of operations.

We are subject to taxes in the U.S. and other jurisdictions. Tax rates in these jurisdictions may be subject to significant change due to economic and/or political conditions. A number of other factors may also impact our future effective tax rate including:

- the jurisdictions in which profits are determined to be earned and taxed;
- the resolution of issues arising from tax audits with various tax authorities;
- changes in valuation of our deferred tax assets and liabilities;
- increases in expenses not deductible for tax purposes, including write-offs of acquired intangibles and impairment of goodwill in connection with acquisitions;
- changes in availability of tax credits, tax holidays, and tax deductions;
- changes in share-based compensation; and
- changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles.

There may be restrictions on the use of our net operating loss and tax credit carryforwards due to a tax law "ownership change."

We did not generate taxable income in 2020 or 2019 and, as a result, we were unable to use our net operating loss and tax credit carryforwards with respect to such tax years. In addition, Sections 382 and 383 of the Internal Revenue Code restrict the ability of a corporation that undergoes an ownership change to use net operating loss and tax credit carryforwards. We have performed analyses of possible ownership changes which included consideration of a third-party study, and do not believe that an ownership change, as defined by Section 382, has occurred. However, if a tax law ownership change has occurred of which we are not aware, or if a tax law ownership change occurs in the future, we may have to adjust the valuation of our deferred tax assets and could be at risk of having to pay income taxes notwithstanding the existence of our sizable carryforwards. Further, to the extent that we have utilized our carryforwards from prior years, the existence of a previous tax law ownership change that we did not account for could result in liability for back taxes, interest, and penalties. If we are unable to utilize our carryforwards and/or if we previously utilized carryforwards to which we were not entitled, it would negatively impact our business, financial condition and operating results.

Risks Related to Technology and Intellectual Property

Our software or hardware products or the third-party hardware or software integrated with our products or delivered as part of our service offerings may suffer from defects or errors that could impair our ability to sell our products and services.

Software and hardware components as complex as those needed for dedicated purpose intelligent systems frequently contain errors or defects, especially when first introduced or when new versions are released. We have had to delay commercial release of certain versions of our products until problems were corrected and, in some cases, have provided product enhancements to correct errors in released products. Some of our contracts require us to repair or replace products that fail to work. To the extent

that we repair or replace products, our expenses may increase. In addition, it is possible that by the time defects are repaired, the market opportunity may decline which may result in lost revenue.

Moreover, to the extent that we provide increasingly complex and comprehensive products and services, particularly those focused on IoT hardware, and rely on third-party manufacturers and suppliers to manufacture these products, we will be dependent on the ability of such third-party manufacturers and suppliers to correct, identify and prevent manufacturing errors or defects. Errors or defects that are discovered after commercial release could result in loss of revenue or delay in market acceptance, diversion of development resources, damage to our reputation and increased service and warranty costs, all of which could negatively impact our business and operating results.

Our business and operations would be adversely impacted in the event of a failure or interruption of our IT infrastructure.

The proper functioning of our IT infrastructure is critical to the efficient operation and management of our business. Despite ongoing mitigation efforts, our infrastructure may be vulnerable to cyberattacks, cyberterrorism, computer viruses, worms and other malicious software programs, physical and electronic break-ins, sabotage and similar disruptions from unauthorized tampering with our computer systems. We believe that we have adopted appropriate measures to mitigate potential risks to our technology infrastructure and our operations from these IT-related and other potential disruptions. However, given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to downtime, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or personal information, destruction or corruption of data, security breaches, other manipulation or improper use of our systems and networks, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation, any of which could have a material adverse effect on our cash flows, competitive position, financial condition or results of operations.

Interruptions or delays in services from third-party data center hosting facilities or cloud computing platform providers could impair the delivery and availability of our products and services and harm our business.

We currently serve certain customers through third-party data center hosting facilities and cloud computing platform providers located in the United States and other countries. Any damage to, or failure of, these systems generally could result in interruptions in the availability of our products and services. We have from time to time experienced, and may continue to experience, such interruptions, which could cause us to issue credits or pay penalties, cause customers to terminate their subscriptions, and adversely affect our customer attrition rates and our ability to attract new customers, all of which would reduce our revenue. Our business would also be harmed if our customers and potential customers believe our product and services offerings are unreliable. Despite contract provisions to protect us, customers may look to us to support and provide warranties for these third-party systems, which may expose us to potential claims, liabilities and obligations for technology or services we did not develop or sell, all of which could harm our business. Further, third-party software and cloud platforms that we currently or may in the future utilize may not continue to be available at reasonable prices, on commercially reasonable terms, or may become unavailable. Any of these outcomes could significantly increase our expenses and result in delays in the provisioning of our products and services until we are able to procure alternative solutions, either by developing equivalent technology or, if available, obtaining such technology through purchase or license from other third parties.

We do not control the operation or security of any of these hosting facilities or cloud computing platforms, and they may be vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct, as well as local administrative actions, changes to legal or permitting requirements and litigation to stop, limit or delay operation. Despite precautions taken by providers of these facilities and platforms, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities or platforms without adequate notice or other unanticipated problems at these facilities or platforms could result in lengthy interruptions in or cessation of our services.

Breaches in data security or incidents of cybercrime could damage our customers' business and our reputation, which may harm our ability to gain new customers or cause our existing customer to look to our competitors for products and services.

Our products and services involve the storage and transmission of customers' proprietary data and personal information and security breaches could result in a risk of loss of this data or information, litigation and possible liability. While we have security measures in place, they may be breached as a result of third-party action, including intentional misconduct by computer hackers, employee error, malfeasance or otherwise and result in someone obtaining unauthorized access to our IT systems, our customers' data or our data, including our intellectual property and other confidential business information. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive personal information such as usernames, passwords or other information in order to gain access to our customers' data, our data or our IT systems. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, our customers may authorize third-party technology providers to access their customer data, and some of our customers may not have adequate security measures in place to protect their data. Because we do not control the IT security of our customers or third-party technology providers, or of the processing of such data by third-party technology providers, we cannot ensure the integrity or security of such transmissions or processing. Malicious third parties may also conduct attacks designed to temporarily deny customers access to our products and services. Any security breach could result in a loss of confidence in the security of our products and services, damage our reputation, negatively impact our future sales, disrupt our business and lead to legal liability.

Our software and service offerings could infringe the intellectual property rights of third parties, which could expose us to additional costs and litigation and could adversely affect our ability to sell our products and services or cause shipment delays or stoppages.

It is difficult to determine whether our software products and engineering services infringe third-party intellectual property rights, particularly in a rapidly evolving technological environment in which technologies often overlap and where there may be numerous patent applications pending, many of which are confidential when filed. If we were to discover that one of our software

products or service offerings, or a product based on one of our reference designs, violated a third party's proprietary rights, we may not be able to obtain a license on commercially reasonable terms, or at all, to continue offering that product or service. Similarly, third parties may claim that our software products and services infringe their proprietary rights, regardless of whether such claims have merit. Any such claims could increase our costs and negatively impact our business and operating results. In certain cases, we have been unable to obtain indemnification against claims that third-party technology incorporated into our software products and services infringe the proprietary rights of others. However, any indemnification we do obtain may be limited in scope or amount. Even if we receive broad third-party indemnification, these entities may not have the financial capability to indemnify us in the event of infringement.

In addition, in some circumstances we are required to indemnify our customers for claims made against them that are based on our software products or services. We may face claims of infringement or invalidity related to the software products and services we provide or arising from the incorporation by us of third-party technology and claims for indemnification from our customers resulting from such claims. Some of our competitors have, or are affiliated with companies with, substantially greater resources than we have, and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. In addition, we expect that software developers will be increasingly subject to infringement claims as the number of products and competitors in the software industry grows, and as the functionality of products in different industry segments increasingly overlap. Such claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources in addition to potential product redevelopment costs and delays. Furthermore, if we were unsuccessful in resolving a patent or other intellectual property infringement action claim against us, we may be prohibited from developing or commercializing certain of our technologies and products, or delivering services based on the infringing technology, unless we obtain a license from the holder of the patent or other intellectual property rights. We may not be able to obtain any such license on commercially favorable terms, or at all. If such license were not obtained, we would be required to cease these related business operations, which could negatively impact our business, revenue and operating results.

If we are unable to license key software from third parties, our business could be harmed.

We sometimes integrate third-party software with our proprietary software and engineering service offerings or sell such third-party software offerings on a standalone basis, such as we do with Microsoft Windows IoT and Mobile operating systems under our OEM Distributor Agreements ("ODAs") with Microsoft. If our relationships with these third-party software vendors were to deteriorate, or be eliminated in their entirety, we might be unable to obtain licenses on commercially reasonable terms, if at all. In the event that we are unable to obtain these third-party software offerings, we would be unable to continue to generate revenue from our reseller relationships or, with respect to our proprietary software and engineering services offerings, we would be required to develop this technology internally, assuming it was economically or technically feasible, or seek similar software offerings from other third parties assuming there were competing offerings in the marketplace, which could delay or limit our ability to introduce enhancements or new products, or to continue to sell existing products and engineering services, thereby negatively impacting our revenue and operating results.

If we fail to adequately protect our intellectual property rights, competitors may be able to use our technology which could weaken our competitive position, reduce our revenue and increase our costs.

We rely primarily on confidentiality policies and procedures and contractual provisions as well as a combination of patent, copyright, trade secret and trademark laws, to protect our intellectual property. These laws, policies and procedures provide only limited protection. It is possible that another party could obtain patents that block our use of some, or all, of our software products and services. If that occurred, we would need to obtain a license from the patent holder or design around those patents. The patent holder may or may not choose to make a license available to us on acceptable terms, or at all. Similarly, it may not be possible to design around a blocking patent. Our efforts to protect our intellectual property rights through patent, copyright, trade secret and trademark laws may not be effective to prevent misappropriation of our technology, or to prevent the development and design by others of products or technologies similar to or competitive with those developed by us.

We license our computer source code to customers. Customers with access to our source code may not comply with the license terms. We may not discover any violations of the license terms and, in the event of discovery of violations, we may not be able to successfully enforce the license terms or recover the economic value lost from such violations. To license some of our software products, we rely in part on "shrink-wrap" and "click wrap" licenses that are not signed by the end user and, therefore, may be unenforceable under the laws of certain jurisdictions. As with other software, our software products are susceptible to unauthorized copying and uses that may go undetected, and policing such unauthorized use is difficult.

A significant portion of our marks include the word "BSQUARE." Other companies use forms of "BSQUARE" in their marks alone, or in combination with other words, and we cannot prevent all such third-party uses. We license certain trademark rights to third parties. Such licensees may not abide by our compliance and quality control guidelines with respect to such trademark rights. Any of these outcomes could negatively impact our brand, dilute its recognition in the marketplace, or confuse potential customers, all of which could harm our business.

The computer software market is characterized by frequent and substantial intellectual property litigation, which is often complex and expensive, and involves a significant diversion of resources and uncertainty of outcome. Litigation may be necessary in the future to enforce our intellectual property or to defend against a claim of infringement or invalidity. Litigation could result in substantial costs and the diversion of resources and could negatively impact our business and operating results.

Risks Related to Our Partnership with Microsoft

We provide software and services to customers building devices utilizing Microsoft's Windows IoT and Windows Mobile operating systems and a significant portion of our revenue is derived from the sale of Microsoft Windows IoT and Windows Mobile operating systems. As a result, Microsoft has a significant direct and indirect influence on our business. The following Microsoft-related risks may negatively impact our business and operating results.

If we do not maintain our distribution relationship with Microsoft as currently structured, our revenue would decrease, and our business would be adversely affected.

We have entered into ODAs with Microsoft pursuant to which we are licensed to sell Microsoft Windows Mobile operating systems to customers in North America, South America, Central America (excluding Cuba), Japan, Taiwan, Europe, the Middle East, and Africa. The ODAs to sell Windows Mobile operating systems are effective through April 30, 2022. If any of our other ODAs are terminated by Microsoft (which Microsoft can do unilaterally) or not renewed, Partner Solutions revenue and resulting gross profit could decrease significantly and our operating results would be negatively impacted. Future renewals by Microsoft, if any, could be on less favorable terms, which could also negatively impact our business and operating results.

We currently recognize revenue from the sale of Microsoft software generally upon shipment of physical software licenses. If Microsoft were to change the method of providing software licenses to a digital rather than physical medium, our revenue recognition policies may need to change, and that change in policy could result in a significant decrease in revenue. While such a change is not expected, and would not immediately impact our cash flows, the full financial scope of the impact is uncertain and potentially significantly negative.

Microsoft can change its product pricing at any time, and unless we are able to pass through price increases to our customers, our revenue, gross profit and operating results would be negatively impacted.

Further, Microsoft currently offers a rebate program in conjunction with our resale activities in which we earn money for achieving certain predefined objectives. If Microsoft changes the way that rebates are earned by eliminating or negatively modifying the rebate program, our gross profit and operating results would be adversely impacted. In the second quarter of 2020, Microsoft changed the way a portion of its earned rebate may be claimed. While the change enacted in 2020 resulted in a net increase in rebates provided to us by Microsoft, future changes could have the opposite effect. If we are unable to meet the new rebate criteria, should the criteria be modified, we may not be able to sustain the financial benefits of the rebate program and our operating results could be harmed.

Our business and results of operations could be negatively impacted by changes Microsoft implements in its pricing of its operating systems.

Microsoft has historically implemented significant pricing changes for its operating systems products and Microsoft could make further pricing changes in the future. These changes have altered the competitive dynamics because the same pricing discounts are available to all distributors of these Microsoft products. As a distributor of Microsoft products, this may impact both the sales prices we charge our customers and the cost of goods sold that we incur for many of the Microsoft products we sell. Microsoft has indicated that a new version of an operating system product we frequently sell to customers will be released in the near future. While Microsoft has not indicated the pricing of this new product version, any significant declines in the market price for the product will reduce our revenue and may reduce our gross profits. The amount and impact of the change, and other pricing changes, on our revenue and gross profit are currently not determinable; however, they may negatively impact our operating results in future reporting periods.

Microsoft offers certain consumer Windows phone and tablet-based operating systems to customers free of charge, subject to certain limitations. While we do not distribute these operating systems today under our ODAs with Microsoft, if Microsoft were to offer, free of charge, operating systems that we do distribute, our business and results of operations would be adversely impacted.

In recent years, the markets for Windows IoT and Windows Mobile operating systems have declined; if the markets for these operating systems continue to decline or decline more rapidly than anticipated, our business and operating results would be materially harmed.

A significant portion of our revenue to date has been generated by software and services targeted at customers and devices running various Microsoft Windows IoT and Windows Mobile operating systems. In recent years, the markets for these systems have declined. If the markets for these operating systems continue to decline or decline more rapidly than anticipated, our business and operating results would be negatively impacted. Continued market acceptance of Microsoft Windows IoT and Windows Mobile operating systems will depend on many factors, including:

- Microsoft's development and support of various Windows IoT and Windows Mobile markets. As the developer and primary promoter of Windows IoT and Windows Mobile operating systems, if Microsoft were to decide to discontinue or lessen its support of these operating systems, potential customers could select competing operating systems, which could reduce the demand for our Microsoft Windows IoT and Windows Mobile software products and engineering services, from which a significant portion of our revenue continues to be generated;
- The ability of the Microsoft Windows IoT and Windows Mobile operating systems to compete against existing and emerging operating systems for the smart connected systems market, including iOS from Apple, Inc.; VxWorks and Linux from WindRiver Systems Inc.; Android from Google Inc.; QNX from BlackBerry Limited; and other proprietary operating systems. Microsoft Windows IoT and Windows Mobile operating systems may be unsuccessful in capturing or retaining a significant share of the smart connected systems market in the future;
- The acceptance by customers of the mix of features and functions offered by Microsoft Windows IoT and Windows Mobile operating systems; and

The willingness of software developers to continue to develop and expand the applications running on Microsoft Windows IoT and Windows Mobile operating systems is uncertain. To the extent that software developers write applications for competing operating systems that are more attractive to users than those available on Microsoft Windows IoT and Windows Mobile operating systems, this could cause potential customers to select competing operating systems and our revenue could decline.

Microsoft has audited our records under the ODAs in the past and may audit our records again in the future, and any negative audit results could result in additional charges and/or the termination of our distributor relationship with Microsoft.

There are provisions in the ODAs that require us to maintain certain internal records and processes for auditing purposes. Non-compliance with these or other contractual requirements could result in the termination of our distributor relationship with Microsoft. Microsoft conducted previous audits of our records pertaining to the ODAs, none of which had material findings. It is possible that future audits could result in charges due to any material findings that are found. We may also be contractually liable for payment of royalties to Microsoft in the event that certificates of authenticity are lost, damaged or stolen.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

During the second quarter of 2020, we completed a move of our corporate headquarters from the prior location in Bellevue, Washington to a 6,780 square-foot facility in downtown Seattle, Washington. As of December 31, 2020, we have consolidated almost all of our operations into that single location, with the one exception of a small shipping and receiving location remaining in Bellevue. The lease term on the new Seattle facility ends in July 2027.

We also lease 8,217 square feet of office space in Trowbridge, England, U.K. for use by the team of engineers and sales and marketing personnel operating from that location. In the fourth quarter of 2020, we renewed the lease for that facility for a 10-year term with substantially same terms as the now-terminated lease. We have an option to cancel the second half of the lease term (5 years).

In the fourth quarter of 2019, we made the decision to close our office in Taipei, Taiwan and fully executed that decision in the first quarter of 2020. We have no employees or facilities remaining in Taiwan.

We believe that our facilities meet our current operational needs now and in the near-term future.

Item 3. ***Legal Proceedings.***

None.

Item 4. ***Mine Safety Disclosures.***

Not applicable.

PART II

Item 5. ***Market for Registrant's Common Equity Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Market Information

Our common stock is traded on The NASDAQ Stock Market, LLC under the symbol "BSQR."

Holders

As of February 28, 2021, there were 112 holders of record of our common stock. Because many shares of our common stock are held by brokers and other institutions on behalf of shareholders, we are unable to determine the total number of shareholders represented by these holders of record.

Item 6. ***Selected Financial Data.***

Not applicable.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and related notes. This Management's Discussion and Analysis of Financial Condition and Results of Operations may contain some statements and information that are not historical facts but are forward-looking statements. For a discussion of these forward-looking statements, and of important factors that could cause results to differ materially from the forward-looking statements contained in this report, see Item 1 of Part I, "Business—Cautionary Note Regarding Forward-Looking Statements," and Item 1A of Part I, "Risk Factors."

Overview

Bsquare is a software and services company that designs, configures, and deploys technologies that solve difficult problems for manufacturers and operators of connected devices. Our customers choose Bsquare to help realize the promise of IoT to transform their businesses. Our products include software that connect devices to create intelligent systems that are cloud-enabled, contribute critical data, and facilitate distributed control and decision making. Our services include 24/7 IoT operations that allow our customers to focus on their businesses while we take care of security, monitoring, and general technology updates. The opportunity to help companies explore and capture the value of IoT is attractive and growing. In the last two years alone, we helped hundreds of companies deploy and manage over two million devices. We operate large IoT systems for our customers with device fleets that range in size and complexity. We believe we offer a unique combination of expertise in device-level solutions, embedded operating systems, and IoT services and software that is valued by a global customer base, from start-ups to Fortune 100 companies, across a diverse set of industries.

In 2020, we continued our initiatives commenced in 2019 to reposition our business. We believe the additional focus we placed on serving our customers contributed to the financial and operating results of 2020.

Revenue and Customers

The COVID-19 pandemic interrupted our customer ordering patterns, causing a significant disruption to our Partner Solutions business in 2020. After an exceptionally strong revenue in the first quarter, we saw a significant decrease in Partner Solution revenue in the second quarter. Partner Solutions revenue improved and stabilized in the third and fourth quarters, but at levels lower than our pre-COVID-19 expectations. We suspect our Partner Solutions revenue also decreased because competing Microsoft distributors offered deep discounts on Windows IoT OS software as part of hardware / software bundles. We expect this will continue in 2021. We are working aggressively to retain our large customers and attract new customers with superior service and technical support, pricing that rewards loyalty, and a path to IoT operations.

Investments made to ensure we were meeting our operating commitments, while re-tooling and addressing issues with software previously delivered to some of our larger IoT customers, started to pay off in 2020. We expanded our relationship with Itron, Inc. ("Itron") and our work helping them build their intelligent utility grid. We anticipate investments in our other large IoT customers will continue in 2021, but at lower levels than in 2020 as the bulk of the rework is now complete. Beyond gaining credibility as a reliable technology partner, we believe the experience we have gained serving Itron and our other large IoT customers positions us to improve our IoT software and services in 2021 and beyond.

Expenses and Operating Results

Despite the disruption of COVID-19, we had one of our strongest years in recent history. 2020 operating loss and net loss improved dramatically over 2019, by $7.5 million and $7.3 million respectively. These strong results became possible through prior efforts to enter 2020 with an expense structure that made sense for our business and an entrepreneurial leadership team that acted on changing business circumstances and opportunities as they emerged. We believe this operating discipline demonstrates our ability to manage through adversity.

Cash and Liquidity

Our cash and cash equivalents increased by $2.4 million during 2020. Our access to loan proceeds from the $1.6 million PPP loan supported our efforts to maintain our engineering staffing levels and pursue new opportunities created by our unique expertise. Our current cash balance and lack of debt service obligations (other than any unforgiven portions of our PPP loan principal) have provided sufficient liquidity for the business.

Critical Accounting Judgments

Revenue recognition

We recognize revenue when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

Embedded operating system software

We sell embedded operating system software licenses based upon a customer purchase order, shipping a certificate of authenticity ("COA") to satisfy this single performance obligation. These shipments are also subject to limited return rights; historically, returns have been insignificant. We recognize revenue from third-party products at the time of shipment when the customer accepts control of the COA.

Proprietary software

We sell our proprietary software products to customers under a contract or by purchase order. Our Edge to Cloud software contracts generally include professional services, a perpetual or term license and support and maintenance. In contracts with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligations are distinct within the context of the contract at contract inception. Performance obligations that are not distinct at contract inception are combined. Contracts that include software customization may result in the combination of the customization services with the software license as one distinct performance obligation. We allocate the transaction price to each distinct performance obligation based on the estimated standalone selling price for each performance obligation. We then look to how control of the software transfers to the customer in order to determine the timing of revenue recognition. In contracts that include customer acceptance, we recognize revenue when we have delivered the software and received customer acceptance. We recognize revenue from support and maintenance over the service delivery period. We recognize revenue from royalties in the period of usage.

Our software products generally do not include customization or modification services and are sold in the form of term licenses. These software licenses represent one distinct performance obligation. Revenue is recognized when the software is delivered to the customer.

Professional services

We enter into contracts for professional services, including for our IoT-related service offerings, that include software development and customization. We identify each performance obligation in our professional services contracts at contract inception. The contracts generally include project deliverables specified by each customer. The contract pricing is either at stated billing rates per service hour and material costs or at a fixed amount. Services provided under professional engineering contracts generally result in the transfer of control of the applicable deliverable over time. We recognize revenue on service contracts based on time and materials as we have the right to invoice. We recognize revenue on fixed fee contracts on the proportion of labor hours expended to the total hours expected to complete the contract performance obligation. Certain professional service contracts include substantive customer acceptance provisions, in which case we recognize revenue upon customer acceptance.

The determination of the total labor hours expected to complete the performance obligations on fixed fee contracts involves significant judgment. We incorporate revisions to hour and cost estimates when the causal facts become known. In certain situations, when it is impractical for us to reasonably measure the outcome of a performance obligation, and where we anticipate that we will not incur a loss, an adjusted cost-based input method is used for revenue recognition. Equal amounts of revenue and cost are recognized during the contract period, and profit is recognized when the project is completed and accepted.

Leases

We lease office facilities, primarily under operating leases, which expire at various dates through 2027. These leases generally contain renewal options for a defined number of years at the then-fair market rental rate or rate stipulated in the lease agreement, which we have an option to exercise at the end of the initial lease term.

We determine if an arrangement is a lease at inception. On our balance sheet, our office facility leases are included in Right-of-Use ("ROU") assets and related lease liabilities are included in the Operating leases and Operating leases, long-term statement line items. ROU assets represent our right to use the underlying assets for the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease agreements. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the term of the lease. For leases that do not provide an implicit rate, we use an incremental borrowing rate based on information available at the commencement date to determine the present value of lease payments. We will use the implicit rate in the lease when readily determinable. The Company accounts for its lease expense with free rent periods and step-rent provisions on a straight-line basis over the original term of the lease and any extension options that the Company more likely than not expects to exercise, from the date the Company has control of the property. Certain leases provide for periodic rental increases based on price indices. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Intangible assets

We evaluate our intangible assets for indications of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Our intangible assets consist of customer relationships arising from business acquisitions. We periodically assess the value of our intangible assets. Factors that could trigger an impairment analysis include significant under-performance relative to historical or projected future operating results, significant changes in the manner of our use of the acquired assets or the strategy for our overall business or significant negative industry or economic trends. If this evaluation indicates that the value of the intangible asset may be impaired, we assess the likelihood of recoverability of the net carrying value of the asset over its remaining useful life. If this assessment indicates that the intangible asset is not recoverable, based on the estimated undiscounted future cash flows of the technology over the remaining useful life, we reduce the net carrying value of the related intangible asset to fair value.

Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate income taxes in each of the countries and other jurisdictions in which we operate. This process involves estimating our current tax expense together with assessing temporary differences resulting from the differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. Net operating losses and tax credits, to the extent not already utilized to offset taxable income or income taxes, also give rise to deferred tax assets. We must then assess the likelihood that any deferred tax assets will be realized from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. We are required to use judgment as to the appropriate weighting of all available evidence when assessing the need for the establishment or the release of valuation allowances. As part of this analysis, we examine all available evidence on a jurisdiction-by-jurisdiction basis and weigh the positive and negative information when determining the need for full or partial valuation allowances. The evidence considered for each jurisdiction includes, among other items, (i) the historical levels of income or loss over a range of time periods that extends beyond the two years presented, (ii) the historical sources of income and losses, (iii) the expectations and risk associated with underlying estimates of future taxable income, (iv) the expectations and risk associated with new product offerings and uncertainties with the timing of future taxable income, and (v) prudent and feasible tax planning strategies. Significant judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our deferred tax assets. We estimate the valuation allowance related to our deferred tax assets on a quarterly basis.

Our sales may be subject to other taxes, particularly withholding taxes, due to our sales to customers in countries other than the United States. The tax regulations governing withholding taxes are complex, causing us to have to make assumptions about the appropriate tax treatment. Further, we make sales in many jurisdictions across the United States, where tax regulations are varied and complex. We must therefore continue to analyze our state tax exposure and determine what the appropriate tax treatments are, and make estimates for sales, franchise, income and other state taxes.

Results of Operations

The following table presents our summarized results of operations for the periods indicated. Our historical operating results are not necessarily indicative of the results for any future period.

	Year Ended December 31,			
(In thousands, except percentages)	2020	2019	$ Change	% Change
Revenue	$ 47,144	$ 59,283	$ (12,139)	(20)%
Cost of revenue	39,418	49,187	(9,769)	(20)%
Gross profit	7,726	10,096	(2,370)	(23)%
Operating expenses	9,580	19,410	(9,830)	(51)%
Loss from operations	(1,854)	(9,314)	7,460	(80)%
Other income, net	(35)	149	(184)	(123)%
Loss before income taxes	(1,889)	(9,165)	7,276	(79)%
Income tax expense	—	(16)	16	(100)%
Net loss	$ (1,889)	$ (9,181)	$ 7,292	(79)%

Revenue

We generate revenue from the sale of software, both embedded operating system software that we resell and our own proprietary software, and related professional services. Total revenue decreased in 2020 compared to 2019, due to decreased sales in our Partner Solutions segment, primarily in North America and Asia, as well as decreased revenue in our Edge to Cloud segment.

Additional revenue details were as follows:

	Year Ended December 31,			
(In thousands, except percentages)	2020	2019	$ Change	% Change
Revenue:				
Partner Solutions	$ 42,257	$ 50,628	$ (8,371)	(17)%
Edge to Cloud	4,887	8,655	(3,768)	(44)%
Total revenue	$ 47,144	$ 59,283	$ (12,139)	(20)%
As a percentage of total revenue:				
Partner Solutions	90%	85%		
Edge to Cloud	10%	15%		

Partner Solutions revenue

Partner solutions revenue decreased $8.4 million and 17% in 2020 compared to 2019,We believe customer demand for embedded operating systems was adversely impacted by the economic downturn and related uncertainty stemming from the global COVID-19 pandemic. We have some customer concentration in industries particularly impacted by COVID-19, such as casino gaming, hospitality, and point-of-sale systems.

Edge to Cloud revenue

Edge to Cloud revenue decreased $3.8 million and 44% in 2020 compared to 2019, due primarily to professional services revenue earned in 2019 that was not repeated in 2020. We expect Edge to Cloud revenue will continue to vary in timing and amounts.

Gross profit and gross margin

Cost of Partner Solutions revenue consists primarily of the cost of embedded operating system software product costs payable to third-party vendors, net of rebate credits earned through Microsoft's distributor incentive program. Cost of Edge to Cloud revenue consists primarily of salaries and benefits, contractor costs and re-billable expenses, and amortization of certain intangible assets related to acquisitions.

Gross profit and gross margin were as follows:

	Year Ended December 31,			
(In thousands, except percentages)	2020	2019	$ Change	% Change (1)
Partner Solutions gross profit	$ 7,086	$ 7,430	$ (344)	(5)%
Partner Solutions gross margin	17%	15%	—	2%
Edge to Cloud gross profit	$ 640	$ 2,666	$ (2,026)	(76)%
Edge to Cloud gross margin	13%	31%	—	(18)%
Total gross profit	$ 7,726	$ 10,096	$ (2,370)	(23)%
Total gross margin	16%	17%	—	(1)%

(1) For gross margin, amounts represent percentage point change.

Partner Solutions gross profit declined in 2020 compared to 2019 primarily as a result of lower third-party software sales. Partner Solutions gross margin was favorably impacted by rebate credits earned through Microsoft’s distributor incentives program. In accordance with program rules, we allocate a portion of the incentive earnings to reduce cost of revenue with the remaining portion utilized to offset qualified marketing expenses in the period the expenditures are claimed and approved. During 2019, 20% was allocated to offset cost of revenue and the remaining 80% was potentially available to offset qualified marketing expenses. During the second quarter of 2020 the program allocation was changed by Microsoft to a 50/50 split between the two components. In 2020, we recorded approximately $757,000 in rebate credits as an offset to cost of revenue compared to approximately $314,000 in 2019.

Partner Solutions gross margin was also favorably impacted by a small amount of revenue for which only the margin is recognized as revenue given our role as agent in the transaction.

Edge to Cloud gross profit and gross margin decreased in 2020 compared to 2019, primarily due to decreased sales of software and services in 2020 compared to 2019 and lower margin project work.

Operating expenses

Operating expenses were as follows:

	Year Ended December 31,			
(In thousands, except percentages)	2020	2019	$ Change	% Change
Operating expenses:				
Selling, general and administrative	$ 9,314	$ 11,316	$ (2,002)	(18)%
Research and development	266	5,751	(5,485)	(95)%
Restructuring costs	—	2,343	(2,343)	—%
Total operating expenses	$ 9,580	$ 19,410	$ (9,830)	-51%
As a percentage of total revenue:				
Selling, general and administrative	20%	19%		
Research and development	1%	10%		
Restructuring costs	—%	4%		

Selling, general and administrative

Selling, general and administrative ("SG&A") expenses consist primarily of salaries and related benefits, commissions and bonuses for our sales, marketing and administrative personnel and related facilities and depreciation costs, as well as professional services fees (such as consulting, legal, audit and tax). SG&A expenses decreased in 2020 compared to 2019 due to lower salaries and related benefits resulting from prior period restructuring efforts, and from lower professional services fees and contract labor. These reductions were partially offset by increased stock-based compensation expense.

Research and development

Research and development ("R&D") expenses consist primarily of salaries and benefits for software development and quality assurance personnel, and contractor and consultant costs. R&D expenses decreased in 2020 compared to 2019, primarily due to lower salaries and related benefits resulting from restructuring efforts in prior periods, including the elimination of R&D positions.

Restructuring costs

Restructuring costs incurred during 2019 include $1.9 million in severance and benefits related to a workforce reduction plan announced by management in the second quarter of 2019 and a non-cash impairment charge in the second quarter of 2019 of $0.4 million related to certain software development cost assets. There were no restructuring costs incurred during 2020.

Other income (loss), net

Other income and loss consist primarily of interest income on our cash and investments, gains and losses we may recognize on our investments, gains and losses on foreign exchange transactions and other items. The decrease in 2020 compared to 2019 was primarily due to lower total interest earned on our cash and investments and foreign exchange rate fluctuations.

Income taxes

Income tax expense for 2020 and 2019 related to state and local income taxes.

Liquidity and Capital Resources

As of December 31, 2020, we had $13.0 million of cash, cash equivalents and investments (including $0.3 million in restricted cash), compared to $10.6 million at December 31, 2019, reflecting a net increase of approximately $2.4 million in cash, cash equivalents and investments. We generally invest our excess cash in high quality marketable investments. These investments generally include corporate notes and bonds, commercial paper and money market funds, although specific holdings can vary from period to period depending upon our cash requirements. Our investments held at December 31, 2019 had minimal default risk and short-term maturities. There were no investments held at December 31, 2020.

Operating activities provided cash of approximately $1.1 million in 2020, which included a net loss of $1.9 million, partially offset by non-cash adjustments of $1.4 million and a change in working capital of approximately $1.5 million. Operating activities used cash of approximately $6.0 million in 2019, which included a net loss of approximately $9.2 million, partially offset by non-cash adjustments of approximately $1.8 million and a change in working capital of approximately $1.4 million.

Investing activities provided cash of approximately $2.0 million in 2020, primarily due to net cash inflows on short-term investments of $2.3 million, partially offset by capital expenditures of $0.3 million. Investing activities provided cash of approximately $3.9 million in 2019, primarily due to net cash inflows on short-term investments of $4.3 million, partially offset by capital expenditures of $0.4 million.

Financing activities provided $1.6 million of cash in 2020 due to proceeds from the PPP Loan. There was no cash provided by financing activities in 2019.

We believe that our existing cash, cash equivalents and investments will be sufficient to meet our needs for working capital and capital expenditures for at least the next 12 months.

Contractual commitments

Future operating lease commitments were as follows as of December 31, 2020 (in thousands):

As of December 31, 2020, maturities of lease liabilities were as follows:		**Operating leases**
Years Ended December 31,		
2021	$	365
2022	$	372
2023	$	378
2024	$	385
2025	$	371
Thereafter	$	439
Total minimum lease payments		2,310
Less: amount representing interest		(336)
Present value of lease liabilities	$	1,974

Recently Issued Accounting Standards

See Note 1, “Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements in Item 8.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk.***

Not applicable.

Item 8. ***Financial Statements and Supplementary Data.***

BSQUARE CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of
Bsquare Corporation

Opinion on the Financial Statements

We have audited the consolidated balance sheets of Bsquare Corporation (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive loss, shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Edge to Cloud Revenue Recognition

As described in Notes 1 and 2 to the consolidated financial statements, the Edge to Cloud revenue stream comprises multiple performance obligations, and generally include professional services, a perpetual or term license and support and maintenance. Due to the multiple element nature of the Company's contracts, appropriate revenue recognition requires the Company to exercise significant judgment in the following areas:

- Determination of whether products and services are considered distinct performance obligations that should be accounted for separately versus together, such as software licenses and related services.
- Determination of stand-alone selling prices for each distinct performance obligation and for products and services that are not sold separately.
- The pattern of delivery (i.e., timing of when revenue is recognized) for each distinct performance obligation.
- Identification and treatment of contract terms that may impact the timing and amount of revenue recognized (e.g., variable consideration, optional purchases, and free services).

Given these factors, the related audit effort in evaluating management's judgments in determining revenue recognition for these customer agreements was extensive and required a high degree of auditor judgment. These were the principal considerations that led us to determine that the matter was a critical audit matter.

The primary procedures we performed to address this critical audit matter included:

- We evaluated management's significant accounting policies related to these customer agreements for reasonableness.
- We selected a sample of customer agreements and performed the following substantive audit procedures:

- Obtained and read contract source documents for each selection, including master agreements, and other documents that were part of the agreement.
- Analyzed the contract to determine if arrangement terms that may have an impact on revenue recognition were identified and properly considered in the evaluation of the accounting for the contract.
- Tested management's identification of distinct performance obligations by evaluating whether the underlying software licenses and services were highly interdependent and interrelated.
- Evaluated the total transaction price determined by management based on the terms of the contract, including any variable consideration, and recalculated the allocation of the total transaction price to each distinct performance obligation based on respective standalone selling prices.

- We evaluated the reasonableness of management's methodology and assumptions in determining estimates of stand-alone selling prices for products and services that are not sold separately.
- We tested the mathematical accuracy of management's calculations of recognized revenue and the associated timing of revenue recognized in the consolidated financial statements.

/s/ Moss Adams LLP

Seattle, Washington
March 18, 2021

We have served as the Company’s auditor since 2006.

BSQUARE CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	December 31,	
	2020	**2019**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,623	$ 7,712
Restricted cash	337	600
Short-term investments	—	2,249
Accounts receivable, net of allowance for doubtful accounts of $50 at December 31, 2020 and $31 at December 31, 2019	6,177	9,216
Prepaid expenses and other current assets	409	244
Contract assets	456	494
Total current assets	20,002	20,515
Equipment, furniture and leasehold improvements, net	322	252
Deferred tax assets	7	7
Intangible assets, net	71	169
Right-of-use lease assets, net	1,853	1,828
Other non-current assets including contract assets	27	284
Total assets	$ 22,282	$ 23,055
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Third-party software fees payable	$ 6,458	$ 7,224
Accounts payable	489	408
Paycheck Protection Program loan	950	—
Accrued compensation	717	1,001
Other accrued expenses	216	306
Deferred revenue, current portion	2,165	1,559
Operating leases	344	702
Total current liabilities	11,339	11,200
Deferred revenue	28	903
Operating leases, long-term	1,630	1,256
Paycheck Protection Program loan, long-term	634	—
Shareholders' equity:		
Preferred stock, no par: 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, no par: 37,500,000 shares authorized; 13,235,038 issued and outstanding at December 31, 2020 and 13,042,293 issued and outstanding at December 31, 2019	139,726	138,877
Accumulated other comprehensive loss	(992)	(987)
Accumulated deficit	(130,083)	(128,194)
Total shareholders' equity	8,651	9,696
Total liabilities and shareholders' equity	$ 22,282	$ 23,055

See notes to consolidated financial statements.

BSQUARE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share amounts)

	Year Ended December 31,	
	2020	**2019**
Revenue:		
Partner Solutions	$ 42,257	$ 50,628
Edge to Cloud	4,887	8,655
Total revenue	47,144	59,283
Cost of revenue:		
Partner Solutions	35,171	43,198
Edge to Cloud	4,247	5,989
Total cost of revenue	39,418	49,187
Gross profit	7,726	10,096
Operating expenses:		
Selling, general and administrative	9,314	11,316
Research and development	266	5,751
Restructuring costs	—	2,343
Total operating expenses	9,580	19,410
Loss from operations	(1,854)	(9,314)
Other income, net	(35)	149
Loss before income taxes	(1,889)	(9,165)
Income tax expense	—	(16)
Net loss	$ (1,889)	$ (9,181)
Basic loss per share	$ (0.14)	$ (0.71)
Diluted loss per share	$ (0.14)	$ (0.71)
Shares used in per share calculations:		
Basic	13,139	12,896
Diluted	13,139	12,896
Comprehensive loss:		
Net loss	$ (1,889)	$ (9,181)
Other comprehensive loss:		
Foreign currency translation, net of tax	(12)	(63)
Unrealized gain on investments, net of tax	7	2
Total other comprehensive loss	(5)	(61)
Comprehensive loss	$ (1,894)	$ (9,242)

See notes to consolidated financial statements.

BSQUARE CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share amounts)

	Preferred Stock		Common Stock		Accumulated Other Comprehensive	Accumulated	Total Shareholders'
	Shares	Amount	Shares	Amount	Income (Loss)	Deficit	Equity
Balance as of December 31, 2018	-	-	12,777,573	138,280	(926)	(119,013)	$ 18,341
Exercise of stock options	-	-	264,720	-	-	-	-
Share-based compensation, including issuance of restricted stock	-	-	-	519	-	-	519
Shares of restricted stock withheld for taxes	-	-	-	(24)	-	-	(24)
Net loss	-	-	-	-	-	(9,181)	(9,181)
Foreign currency translation adjustment, net of tax	-	-	-	102	(63)	-	39
Unrealized gain on investments, net of tax	-	-	-	-	2	-	2
Balance as of December 31, 2019	-	-	13,042,293	138,877	(987)	(128,194)	9,696
Exercise of stock options	-	-	192,745	(1)	-	-	(1)
Share-based compensation, including issuance of restricted stock	-	-	-	812	-	-	812
Shares of restricted stock withheld for taxes	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	(1,889)	(1,889)
Foreign currency translation adjustment, net of tax	-	-	-	38	(12)	-	26
Unrealized gain on investments, net of tax	-	-	-	-	7	-	7
Balance as of December 31, 2020	-	-	13,235,038	$139,726	$ (992)	$ (130,083)	$ 8,651

See notes to consolidated financial statements.

BSQUARE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,	
	2020	**2019**
Cash flows from operating activities:		
Net loss	$ (1,889)	$ (9,181)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	633	897
Share-based compensation	812	519
Software development costs impairment	-	375
Changes in operating assets and liabilities:		
Accounts receivable, net	3,038	2,365
Prepaid expenses and other assets	(6)	593
Contract assets	(189)	559
Third-party software fees payable	(766)	(396)
Accounts payable and accrued expenses	(293)	(1,132)
Operating leases	(9)	130
Deferred revenue	(269)	(227)
Deferred rent	-	(497)
Net cash provided (used by) operating activities	1,062	(5,995)
Cash flows from investing activities:		
Purchases of equipment and furniture	(274)	(418)
Proceeds from maturities of short-term investments	2,250	12,390
Purchases of short-term investments	-	(8,114)
Net cash provided by investing activities	1,976	3,858
Cash flows from financing activities:		
Proceeds from PPP note payable	1,584	-
Proceeds from exercise of stock options	(1)	-
Net cash provided by financing activities	1,583	-
Effect of exchange rates on cash	27	(82)
Net increase (decrease) in cash, restricted cash, and cash equivalents	4,648	(2,219)
Cash, restricted cash, and cash equivalents, beginning of year	8,312	10,531
Cash, restricted cash, and cash equivalents, end of year	$ 12,960	$ 8,312
Supplemental cash flow information:		
Cash (refund of) paid for income taxes	(3)	(7)

See notes to consolidated financial statements.

BSQUARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Accounting Policies

Description of business

Bsquare Corporation (“Bsquare,” “we,” “us” and “our”) builds technology that is powering the next generation of connected devices and intelligent systems. We help companies realize the promise of the Internet of Things ("IoT") through the development of devices and systems that are cloud-enabled, share data seamlessly, facilitate distributed learning and control, and operate securely at scale. We believe that IoT-enabled systems can not only deliver value to our customers but also help people make better use of the resources of our planet. Bsquare's suite of services and software components create new revenue streams and operating models for our customers while providing opportunities for lowering costs and improving operations.

Since our founding in 1994, Bsquare has been at the intersection of hardware and software. Today that intersection is the "edge" where cloud-enabled devices connect to create intelligent systems that share data, facilitate distributed control and machine learning, and operate securely at scale. We believe that our expertise, products, and services are applicable in customer projects and initiatives ranging from device hardware, to the operating system, to IoT software solutions, and cloud services that make intelligent systems possible.

Our business has largely been focused on providing software solutions (including reselling software from Microsoft) and related engineering services to businesses that develop, market and sell dedicated-purpose standalone intelligent systems. Examples of dedicated-purpose standalone intelligent systems include smart, connected computing devices such as point-of-sale terminals, kiosks, tablets and handheld devices, as well as smart vending machines, ATM machines, digital signs, smart phones, set-top boxes and in-vehicle telematics and entertainment devices.

Basis of consolidation

The consolidated financial statements include the accounts of Bsquare and our wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Recently adopted accounting standards

We adopted Accounting Standard Update (ASU) No. 2019-02, Simplifying the Accounting for Income Taxes (Topic 740) on January 1, 2020. Since we maintain a full valuation allowance on our net deferred tax assets, the adoption did not have a material impact on our financial condition, results of operations and cash flows, or financial statement disclosures.

Standards issued and not yet implemented

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). The new standard is effective for reporting periods beginning after December 15, 2022. The standard replaces the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires the use of a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. The standard requires a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. We plan to adopt the new credit loss standard effective January 1, 2023. We do not expect the new credit loss standard to have a material impact on our financial condition, results of operations and cash flows, or financial statement disclosures.

In August 2018, the FASB issued ASU 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force), (ASU 2018-15). The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). We do not expect the new standard to have a material effect on our financial condition, results of operations and cash flows, or financial statement disclosures.

Use of estimates

Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Examples include provisions for bad debts and income taxes, estimates of progress on professional service arrangements, bonus accruals, fair value of intangible assets and property and equipment, fair values of share-based awards, and assumptions used to determine the net present value of operating lease liabilities, among other estimates. Actual results may differ from these estimates.

Income (loss) per share

We compute basic per share amounts using the weighted average number of common shares outstanding during the period and exclude any dilutive effects of common stock equivalent shares, such as options and restricted stock units ("RSUs"). We consider RSUs as outstanding and include them in the computation of basic income or loss per share only when vested. We compute diluted per share amounts using the weighted average number of common shares outstanding plus common stock equivalent shares outstanding during the period using the treasury stock method. We exclude common stock equivalent shares from the computation if their effect is anti-dilutive. Unvested but outstanding RSUs are included in the diluted per share calculation. In a period where we are in a net loss position, the diluted loss per share is computed using the basic share count.

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted per share amounts (in thousands):

	Year Ended December 31,	
	2020	2019
Weighted average common shares outstanding, basic	13,139	12,896
Dilutive potential common shares	—	—
Weighted average common shares outstanding, diluted	13,139	12,896

Common stock equivalent shares of approximately 1,837,000 and 1,570,000 were excluded from the computation of diluted per share amounts for the years ended December 31, 2020 and 2019, respectively, because their effect was anti-dilutive.

Cash, cash equivalents and investments

We invest our excess cash primarily in highly liquid debt instruments of U.S. government agencies and municipalities, debt instruments issued by foreign governments, corporate commercial paper, money market funds, and corporate debt securities. We classify all highly liquid investments with stated maturities of three months or less from date of purchase as cash equivalents and all highly liquid investments with stated maturities of greater than three months and not longer than 12 months as short-term investments.

Short-term investments consist entirely of marketable securities, which are all classified as available-for-sale securities and are recorded at their estimated fair value. We determine the appropriate classification of our investments at the time of purchase and reevaluate such designation at each balance sheet date. We may or may not hold securities with stated maturities greater than 12 months until maturity. As we view these securities as available to support current operations, we classify securities with maturities less than 12 months as short-term investments. We carry these securities at fair value and report the unrealized gains and losses, net of taxes, as a component of shareholders' equity, except for unrealized losses determined to be other than temporary, which are recorded in other expense.

Restricted cash

Restricted cash at December 31, 2019 represents two deposits at a financial institution; one held as security on a letter of credit that expired during 2020 on our headquarters lease obligation, the other held as security on our corporate credit card line. Restricted cash at December 31, 2020 represents only the security on our corporate card credit line.

Financial instruments and concentrations of risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash, cash equivalents, short-term investments, and accounts receivable.

Allowance for doubtful accounts

We record accounts receivable at the invoiced amount net of an estimated allowance for doubtful accounts to reserve for potentially uncollectible receivables. We review customers that have past due invoices to identify specific customers with known disputes or collectability issues. In determining the amount of the allowance, we make judgments about the creditworthiness of significant customers based on ongoing credit evaluations.

Equipment, furniture and leasehold improvements

We account for equipment, furniture and leasehold improvements at cost less accumulated depreciation and amortization. We compute depreciation of equipment and furniture using the straight-line method over the estimated useful lives of the assets, generally three years. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful lives, ranging from two to ten years. We expense maintenance and repair costs as incurred. When assets are retired or otherwise disposed of, gains or losses are included in the consolidated statements of operations. When facts and circumstances indicate that the value of long-lived assets may be impaired, we perform an evaluation of recoverability comparing the carrying value of the asset to projected undiscounted future cash flows. Upon indication that the carrying value of such assets may not be recoverable, we recognize an impairment loss as a charge against current operations based on the difference between the carrying value of the asset and its fair value.

Leases

We lease office facilities, primarily under operating leases, which expire at various dates through 2027. These leases generally contain a renewal options for a defined number of years at the then-fair market rental rate or rate stipulated in the lease agreement; which the Company has an option to exercise at the end of the initial lease term.

We determine if an arrangement is a lease at inception. On our balance sheet, our office facility leases, with a lease term greater than 12-months, are included in Right-of-Use ("ROU") assets and related lease liabilities are included in the Operating leases and Operating leases, long-term statement line items. ROU assets represent our right to use the underlying assets for the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease agreements. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the term of the lease. For leases that do not provide an implicit rate, we use an incremental borrowing rate based on information available at the commencement date to determine the present value of lease payments. We will use the implicit rate in the lease when readily determinable. The Company accounts for its lease expense with free rent periods and step-rent provisions on a straight-line basis over the original term of the lease and any extension options that the Company more likely than not expects to exercise, from the date the Company has control of the property. Certain leases provide for periodic rental increases based on price indices. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Intangible assets

Intangible assets were recorded in connection with business acquisitions and are stated at estimated fair value at the time of acquisition less accumulated amortization. We amortize our acquired intangible assets using the straight-line method using lives ranging from one to ten years. We review intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If intangible assets are considered impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value.

Third-party software fees payable

We record all fees payable and accrued liabilities related to the sale of embedded operating system software, such as Microsoft Windows IoT and Windows Mobile operating systems, as third-party software fees payable.

Research and development

Costs incurred internally in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs would be capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. Generally, this would be reached after all high-risk development issues have been resolved through coding and testing and would occur shortly before the product is released. Research and development expense was $266,000 and $5.8 million in 2020 and 2019, respectively.

Internally developed software

We capitalize payroll and benefits costs incurred internally during the application development stage of developing a computer software product for general release to customers. Amortization of costs incurred after this point is included in cost of revenue over the estimated life of the products.

Advertising costs

All costs of advertising are expensed as incurred. Advertising expense was approximately $112,000 and $154,000 in 2020 and 2019, respectively.

Share-based compensation

The estimated fair value of share-based awards is recognized as compensation expense over the requisite service period, net of estimated forfeitures. We estimate forfeitures of share-based awards based on historical experience and expected future activity. The fair value of RSUs is determined based on the number of shares granted and the quoted price of our common stock on the date of grant. The fair value of stock options is estimated at the grant date based on the fair value of each vesting tranche as calculated by the Black-Scholes-Merton ("BSM") option-pricing model. The BSM model requires various highly judgmental assumptions including expected volatility and option life. If any of the assumptions used in the BSM model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period.

Comprehensive loss

Comprehensive loss refers to net loss and other revenue, expenses, gains and losses that, under generally accepted accounting principles, are recorded as an element of shareholders' equity but are excluded from the calculation of net loss.

Income taxes

We are subject to income taxes in the U.S. and certain foreign jurisdictions. Significant judgment is required in determining our provision for income taxes. We compute income taxes using the asset and liability method, under which deferred income taxes are provided for on the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities. Our deferred tax amounts are measured using currently enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

We apply judgment as to the appropriate weighting of all available evidence when assessing the need for the establishment or the release of valuation allowances. As part of this analysis, we examine all available evidence on a jurisdiction-by-jurisdiction basis and weigh the positive and negative information when determining the need for full or partial valuation allowances. The evidence considered for each jurisdiction includes, among other items, (i) the historical levels of income or loss over a range of time periods that extends beyond the two years presented, (ii) the historical sources of income and losses, (iii) the expectations and risk associated with underlying estimates of future taxable income, (iv) the expectations and risk associated with new product offerings and uncertainties with the timing of future taxable income, and (v) prudent and feasible tax planning strategies. Based on the analysis conducted as of December 31, 2020, we determined that we would not release, in full or in part, the valuation allowance against our U.S. gross deferred tax assets.

We recognize tax benefits from an uncertain position only if it is “more likely than not” that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with a taxing authority having full knowledge of all relevant information. Interest and penalties related to uncertain tax positions are classified in the consolidated financial statements as income tax expense.

Foreign currency

The functional currency of foreign subsidiaries is their local currency. Accordingly, assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Resulting translation adjustments are included in other comprehensive loss and accumulated other comprehensive loss, a separate component of shareholders’ equity. The net gains and losses resulting from foreign currency transactions are recorded in the period incurred and were not significant for any of the periods presented.

Revenue recognition

We recognize revenue when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. We generate all of our revenue from contracts with customers.

Embedded operating system software

We sell embedded operating system software licenses based upon a customer purchase order, shipping a COA to satisfy this single performance obligation. These shipments are also subject to limited return rights; historically, returns have been insigificant. In accordance with ASC Topic 606, Revenue from Contracts with Customers, (“Topic 606”), we recognize revenue from third-party products at the time of shipment when the customer accepts control of the COA.

Proprietary software

We sell our proprietary software products to customers under a contract or by purchase order. Our Edge to Cloud software contracts generally include professional services, a perpetual or term license and support and maintenance. In contracts with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligations are distinct within the context of the contract at contract inception. Performance obligations that are not distinct at contract inception are combined. Contracts that include software customization may result in the combination of the customization services with the software license as one distinct performance obligation. The transaction price is generally in the form of a fixed fee at contract inception. Certain contracts also include variable consideration in the form of royalties earned when customers meet contractual volume thresholds. We allocate the transaction price to each distinct performance obligation based on the estimated standalone selling price for each performance obligation. We then look to how control of the software transfers to the customer in order to determine the timing of revenue recognition. In contracts that include customer acceptance, we recognize revenue when we have delivered the software and received customer acceptance. We recognize revenue from support and maintenance over the service delivery period. We recognize revenue from royalties in the period of usage.

Professional services

We enter into contracts for professional services, including for our IoT-related service offerings, that include software development and customization. We identify each performance obligation in our professional services contracts at contract inception. The contracts generally include project deliverables specified by each customer. The contract pricing is either at stated billing rates per service hour and material costs or at a fixed amount. Services provided under professional engineering contracts generally result in the transfer of control of the applicable deliverable over time. We recognize revenue on service contracts based on time and materials as we have the right to invoice. We recognize revenue on fixed fee contracts on the proportion of labor hours expended (under Topic 606, the 'input method') to the total hours expected to complete the contract performance obligation. Certain professional service contracts include substantive customer acceptance provisions, in which case we recognize revenue upon customer acceptance.

The determination of the total labor hours expected to complete the performance obligations on fixed fee contracts involves significant judgment. We incorporate revisions to hour and cost estimates when the causal facts become known. In certain situations, when it is impractical for us to reasonably measure the outcome of a performance obligation, and where we anticipate that we will not incur a loss, an adjusted cost-based input method is used for revenue recognition. Equal amounts of revenue and cost are recognized during the contract period, and profit is recognized when the project is completed and accepted.

2. Revenue Recognition

Disaggregation of revenue

The following table provides information about disaggregated revenue by primary geographical market, major product line and timing of revenue recognition, and includes a reconciliation of the disaggregated revenue with reportable segments (in thousands):

	Year Ended December 31, 2020			Year Ended December 31, 2019		
	Partner Solutions	Edge to Cloud	Total	Partner Solutions	Edge to Cloud	Total
Primary geographical markets:						
North America	$ 36,141	$ 4,198	$ 40,339	$ 42,443	$ 7,667	$ 50,110
Europe	1,460	595	2,055	1,273	750	2,023
Asia	4,656	94	4,750	6,912	238	7,150
Total	$ 42,257	$ 4,887	$ 47,144	$ 50,628	$ 8,655	$ 59,283
Major products/services lines:						
Partner Solutions	$ 42,257	$ -	$ 42,257	$ 50,628	$ -	$ 50,628
Edge to Cloud	-	4,887	4,887	-	8,655	8,655
Total	$ 42,257	$ 4,887	$ 47,144	$ 50,628	$ 8,655	$ 59,283

Contract Balances

We receive payments from customers based upon contractual billing schedules; accounts receivable are recorded when the right to consideration becomes unconditional. Contract assets include amounts related to our contractual right to consideration for completed performance objectives not yet invoiced and deferred contract acquisition costs, which are amortized over time as the associated revenue is recognized. Contract liabilities, presented as deferred revenue on our condensed consolidated balance sheet, include payments received in advance of performance under the contract and are recognized as revenue when performance obligations are satisfied. We had no asset impairment charges related to contract assets during 2020 or 2019.

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers (in thousands):

	December 31, 2020	December 31, 2019
Receivables	$ 6,177	$ 9,216
Short-term contract assets	456	494
Long-term contract assets	-	237
Short-term contract liabilities (deferred revenue)	2,165	1,559
Long-term contract liabilities (deferred revenue)	28	903

Significant changes in contract assets and liabilities balances were as follows (in thousands):

	December 31, 2020		December 31, 2019	
	Contract Assets	Contract Liabilities (1)	Contract Assets	Contract Liabilities (1)
Revenue recognized that was included in the contract liability at beginning of the period	n/a	$ 1,633	n/a	$ 2,033
Transferred to receivables from contract assets outstanding at beginning of the period	$ 47	n/a	$ 302	n/a

(1) Comprised of deferred revenue

Contract acquisition costs

In connection with the adoption of Topic 606, we capitalize certain contract acquisition costs consisting primarily of commissions paid when contracts are signed. For contracts that have a duration of less than one year, we follow a Topic 606 practical expedient and expense these costs when incurred. For contracts with lives exceeding one year, as is more common with our DataV software bookings, we record these costs in proportion to each completed contract performance obligation. During the years ended December 31, 2020 and December 31, 2019, we recorded $89,000 and $108,000 in amortization of capitalized contract acquisition costs, respectively. There were no impairment losses recorded related to costs capitalized. Contract acquisition costs capitalized during the years ended December 31, 2020 and December 31, 2019 were $0 and $151,000, respectively.

Transaction Price Allocated To Remaining Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period (in thousands). The estimated revenue does not include contracts with original durations of one year or less, amounts of variable consideration attributable to royalties, or contract renewals that were unexercised as of December 31, 2020.

	2021	2022	2023	2024	2025	Thereafter
Partner Solutions	$ 92	$ 6	$ 6	$ 9	$ -	$ -
Edge to Cloud	$ 2,352	$ 7	$ -	$ -	$ -	$ -

Practical expedients and exemptions

We generally expense sales commissions when incurred because the amortization period would have been less than one year. We record these costs within selling, general and administrative expenses.

When applicable and appropriate, the Company utilizes the 'as-invoiced' practical expedient which permits revenue recognition upon invoicing.

3. Cash and Investments

Cash, cash equivalents, restricted cash, and short-term investments consisted of the following (in thousands):

	December 31,	
	2020	2019
Cash	$ 6,509	$ 4,092
Cash equivalents (see detail in Note 4)	6,114	3,620
Restricted cash	337	600
Total cash, cash equivalents and restricted cash as presented in the statement of cash flows	12,960	8,312
Short-term investments (see detail in Note 4)	-	2,249
Total cash, cash equivalents, restricted cash and short-term investments	$ 12,960	$ 10,561

4. Fair Value Measurements

We measure our cash equivalents, restricted cash, and short-term investments at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Directly or indirectly observable market-based inputs or unobservable inputs used in models or other valuation methodologies.
Level 3: Unobservable inputs that are not corroborated by market data. The inputs require significant management judgment or estimation.

We classify our cash equivalents, restricted cash, and short-term investments within Level 1 or Level 2 because our cash equivalents and short-term investments are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. We review the pricing techniques and methodologies of the independent pricing service for Level 2 investments and believe that the policies adequately consider market activity, either based on specific transactions for the security valued or based on modeling of securities with similar credit quality, duration, yield and structure that were recently traded.

Assets and liabilities measured at fair value on a recurring basis were as follows (in thousands):

	December 31, 2020		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Direct or Indirect Observable Inputs (Level 2)	Total
Assets			
Cash equivalents:			
Money market funds	$ 6,114	$ -	$ 6,114
Corporate commercial paper	-	-	-
Corporate debt	-	-	-
Total cash equivalents	6,114	-	6,114
Restricted cash:			
Money market funds	337	-	337
Short-term investments:			
Corporate commercial paper	-	-	-
Corporate debt	-	-	-
Total short-term investments	-	-	-
Total assets measured at fair value	$ 6,451	$ -	$ 6,451

	December 31, 2019		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Direct or Indirect Observable Inputs (Level 2)	Total
Assets			
Cash equivalents:			
Money market funds	$ 1,871	$ -	$ 1,871
Corporate commercial paper	-	999	999
Corporate debt	-	750	750
Total cash equivalents	1,871	1,749	3,620
Restricted cash:			
Money market funds	600	-	600
Short-term investments:			
Corporate commercial paper	-	748	748
Corporate debt	-	1,501	1,501
Total short-term investments	-	2,249	2,249
Total assets measured at fair value	$ 2,471	$ 3,998	$ 6,469

As of December 31, 2020 and 2019, contractual maturities of our short-term investments were less than one year, and gross unrealized gains and losses on those investments were not material.

5. Equipment, Furniture and Leasehold Improvements

Equipment, furniture, and leasehold improvements consisted of the following (in thousands):

	December 31,	
	2020	2019
Computer equipment and software	$ 987	$ 1,290
Office furniture and equipment	147	262
Leasehold improvements	187	1,165
Software development costs	36	45
Total	1,357	2,762
Less: Accumulated depreciation and amortization	(1,035)	(2,510)
Equipment, furniture and leasehold improvements, net	$ 322	$ 252

Depreciation and amortization expense related to these assets was $187,000 and $363,000 in 2020 and 2019, respectively.

6. Intangible Assets

Intangible assets relate to customer relationships that we acquired from TestQuest, Inc. in November 2008 and from the acquisition of Bsquare EMEA, Ltd. in September 2011 and were as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Customer relationships:			
Balance as of December 31, 2020	$ 982	$ (911)	$ 71
Balance as of December 31, 2019	$ 1,275	$ (1,106)	$ 169

Amortization expense was $98,000 for both 2020 and 2019. Amortization expense in future periods is expected to be as follows (in thousands):

2021	$ 71
2022	$ -
Total	$ 71

7. Other Income and Loss

Other income and loss consisted of the following (in thousands):

	Year Ended December 31,	
	2020	2019
Interest income	$ 24	$ 179
Other income (loss)	(59)	(30)
Total income (loss)	$ (35)	$ 149

8. Income Taxes

Pre-tax loss consisted of the following (in thousands):

	Year Ended December 31,	
	2020	2019
U.S.	$ (851)	$ (8,225)
Foreign	(1,038)	(940)
Total	$ (1,889)	$ (9,165)

Income tax expense consisted of the following (in thousands):

	Year Ended December 31,	
	2020	2019
Current taxes:		
Federal	$ -	$ -
State and local	-	16
Foreign	-	-
Current taxes	-	16
Deferred taxes:		
Federal	-	-
State and local	-	-
Foreign	-	-
Deferred taxes	-	-
Total	$ -	$ 16

Net deferred tax assets and liabilities consisted of the following (in thousands):

	December 31,	
	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	$ 18,141	$ 18,677
Research and development credit carryforwards	3,058	3,576
Share-based compensation	449	645
Accrued expenses and reserves	137	127
Depreciation and amortization	38	17
Deferred revenue	253	275
Right of use liability	357	301
Other	23	14
Gross deferred tax assets	22,456	23,632
Less: valuation allowance	(22,121)	(23,324)
Net deferred tax assets	335	308
Deferred tax liabilities:		
Right of use asset	(328)	(301)
Net deferred tax assets	$ 7	$ 7

Net deferred tax assets and liabilities were recorded as follows (in thousands):

	December 31,	
	2020	2019
Deferred tax assets, non-current	$ 7	$ 7
Deferred tax liability, non-current	-	-
Net deferred tax assets	$ 7	$ 7

As of December 31, 2020, our deferred tax assets were primarily the result of U.S. net operating loss, research and development credit carryforwards and share-based compensation expense. We have applied a full valuation allowance against the U.S. deferred tax assets in the U.S. and foreign jurisdictions.

We use judgment as to the appropriate weighting of all available evidence when assessing the need for the establishment or the release of valuation allowances. As part of this analysis, we examine all available evidence on a jurisdiction-by-jurisdiction basis and weigh the positive and negative information when determining the need for full or partial valuation allowances. The evidence considered for each jurisdiction includes, among other items, (i) the historical levels of income or loss over a range of time periods that extends beyond the two years presented, (ii) the historical sources of income and losses, (iii) the expectations and risk associated with underlying estimates of future taxable income, (iv) the expectations and risk associated with new product offerings and uncertainties with the timing of future taxable income, and (v) prudent and feasible tax planning strategies. Based on the analysis conducted as of December 31, 2020, we determined that we would maintain a full valuation allowance against our U.S. gross deferred tax assets.

The provision for income taxes differed from the amount of expected income tax expense determined by applying the applicable U.S. statutory federal income tax rate to pre-tax loss as follows (in thousands, except percentages):

	Year Ended December 31,			
	2020		2019	
U.S. Federal tax benefit at statutory rates	$ (397)	21.0%	$ (1,925)	21.0%
Impact of:				
Tax credits	109	(5.8)	(715)	7.8
State income tax	(53)	2.8	(108)	1.2
International operations	(6)	0.3	409	(4.5)
Share-based compensation	317	(16.8)	348	(3.8)
Valuation allowance	(1,224)	64.8	1,471	(16.0)
Expiration of tax attributes	1,330	(70.4)	475	(5.2)
Other, net	(76)	4.0	61	(0.7)
Tax expense and effective tax rate	$ —	0.0%	$ 16	(0.2)%

At December 31, 2020, we had approximately $80.3 million of federal and $11.1 million of state net operating loss carryforwards, which have begun to expire. Of the federal net operating loss carryforwards, approximately $62.7 million will expire by 2037 and $17.6 million are indefinite. We also have approximately $3.1 million of tax credit carryforwards, which have begun to expire. Use of these carryforwards may subject us to an annual limitation due to Section 382 of the U.S. Internal Revenue Code that restricts the ability of a corporation that undergoes an ownership change to use its carryforwards. Under the applicable tax rules, an ownership change occurs if holders of more than five percent of an issuer's outstanding common stock, collectively, increase their ownership percentage by more than 50 percentage points over a rolling three-year period. We have performed analyses of possible ownership changes in the past, which included consideration of third-party studies, and do not believe that an ownership change of more than 50 percentage points has occurred.

We have evaluated all the material income tax positions taken on our income tax filings to various tax authorities, and we determined that we did not have unrealized tax benefits related to uncertain tax positions recorded at December 31, 2020 and 2019.

Because of net operating loss and tax credit carryforwards, substantially all of our tax years remain open and subject to examination.

9. Leases

We adopted ASU 2016-02 effective January 1, 2019 and elected the modified retrospective transition method, recording a cumulative-effect adjustment as of that date and presenting comparative prior year periods in accordance with Accounting Standards Codification Topic 840. On the date of adoption, we recorded a cumulative adjustment to recognize new net lease liabilities of $1.7 million and new right-of-use (ROU) assets of $1.2 million, for operating leases on our consolidated balance sheets, based on the present value of remaining rental payments for existing operating leases. As part of adoption, we also de-recognized $0.5 million in deferred rent. Adoption of the standard did not have a material impact on our statement of operations or statement of cash flows. As part of adoption, we elected the short-term lease recognition exemption for our facility rental and equipment leases (all leases that qualified), which means that we did not recognize ROU assets or lease liabilities for existing short-term leases (leases of 12-months or less) as of the January 1, 2019 adoption date. In addition, when adopting ASU 2016-02 we applied the following practical expedients to forego assessing:

- whether any expired or existing contracts are or contain a lease,
- lease classification for any expired or existing leases, and
- initial direct costs for any existing leases.
- to separate non-lease components from lease components for leases of real estate assets.

We determine if an arrangement is a lease at inception. On our balance sheet, our office leases are included in ROU assets and related lease liabilities are included in the operating leases and operating leases, long-term statement line items. We determined that we do not currently have finance leases.

ROU assets represent our right to use the underlying assets for the lease term and operating lease liabilities represent our obligation to make lease payments arising from the lease agreements. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the term of the lease. For leases that do not provide an implicit rate, we use an incremental borrowing rate based on information available at the commencement date to determine the present value of lease payments. We will use the implicit rate in the lease when readily determinable. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

In December 2019, we entered into an operating lease agreement for a new corporate office facility in Seattle, Washington. The term of the lease is 87 months, with a rent date starting on May 1, 2020 and the lease term ending on July 31, 2027. As a result of entering into this lease agreement in December 2019, we recorded additional ROU assets and net lease liabilities of $1.2 million on our consolidated balance sheets. There was no material impact to our statement of operations or statement of cash flows as a result of entering into this lease.

In November 2020, we renewed the lease for our office facility in the UK. The term of the lease is 120 months, with rent payments starting on November 30, 2020 and the lease term ending on November 8, 2030. The Company has an opportunity to break the lease at the five-year mark in November 2025. As it is reasonably certain that we will utilize this option, the accounting for this lease utilized November 2025 as the end date. The lease commencement date was November 9, 2020. As a result of entering this lease agreement, we recorded additional ROU assets and net lease liabilities of $365,559 on our consolidated balance sheet as of December 31, 2020. There was no material impact to our statement of operations or statement of cash flows as a result of entering into this lease.

Our leases have remaining terms of five to seven years. The only leases that contain renewal options are for office space leases at our Seattle and Trowbridge locations. In the fourth quarter of 2019, we made the decision to not renew our Bellevue lease, which expired at the end of May 2020, and we made the decision not to renew our Taiwan lease, exiting that facility in February 2020 (see Note 17, “Restructuring Costs”). Because of changes in our business, we are not able to determine with reasonable certainty whether we will renew our Seattle lease. As a result, we have not considered renewal options when recording ROU assets, lease liabilities or lease expense.

Total component lease expense was as follows (in thousands):	**Twelve months ended December 31, 2020**
Operating leases	$ 661
Supplemental cash flow information related to leases was as follows (in thousands):	
Cash paid for amounts included in the measurement of lease liabilities	$ 668

Supplemental balance sheet information related to leases was as follows (dollars in thousands):	**December 31, 2020**
Operating leases:	
Right of use	$ 1,853
Current portion of operating leases liability	$ 344
Operating leases liability, net of current portion	1,630
Total operating leases liabilities	$ 1,974
Weighted Average Remaining Lease Term (in years)	6.15
Weighted Average Discount Rate	8.5%

Future operating lease commitments are as follows (in thousands):

As of December 31, 2020, maturities of lease liabilities were as follows:	**Operating leases**
Years Ended December 31,	
2021	$ 365
2022	372
2023	378
2024	385
2025	371
Thereafter	439
Total minimum lease payments	$ 2,310
Less: amount representing imputed interest	(336)
Present value of lease liabilities	$ 1,974

10. Commitments and Contingencies

Lease and rent obligations

Our commitments include obligations outstanding under operating leases, which expire through 2027. We have lease commitments for office space in Seattle, Washington and Trowbridge, UK. See Note 9, “Leases.”

Loss contingencies

From time to time, we are subject to legal proceedings, claims, and litigation arising in the ordinary course of business including tax assessments. We defend ourselves vigorously against any such claims. When (i) it is probable that an asset has been impaired, or a liability has been incurred and (ii) the amount of the loss can be reasonably estimated, we record the estimated loss. We provide disclosure in the notes to the consolidated financial statements for loss contingencies that do not meet both of these conditions if there is a reasonable possibility that a loss may have been incurred that would be material to the financial statements. Significant judgment is required to determine the probability that a liability has been incurred and whether such liability is reasonably estimable. We base accruals made on the best information available at the time, which can be highly subjective. The final outcome of these matters could vary significantly from the amounts included in the accompanying consolidated financial statements.

11. Shareholders’ Equity

Equity compensation plans

We have a stock plan (the “Stock Plan”) and an inducement stock plan for newly hired employees (the “Inducement Plan”) (collectively the “Plans”). Under the Plans, stock options may be granted with a fixed exercise price that is equivalent to the fair market value of our common stock on the date of grant. These options have a term of up to 10 years and vest over a predetermined period, generally four years. Incentive stock options granted under the Stock Plan may only be granted to our employees. The Plans also allow for awards of non-qualified stock options, stock appreciation rights, restricted and unrestricted stock awards, and RSUs.

Share-based compensation

The estimated fair value of share-based awards is recognized as compensation expense over the vesting period of the award, net of estimated forfeitures. We estimate forfeitures based on historical experience and expected future activity. The fair value of RSUs is determined based on the number of shares granted and the quoted price of our common stock on the date of grant. The fair value of stock options is estimated at the grant date based on the fair value of each vesting tranche as calculated by the Black-Scholes-Merton (“BSM”) option-pricing model. The BSM model requires various highly judgmental assumptions including expected volatility and option life. If any of the assumptions used in the BSM model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period. The fair values of our stock option grants were estimated with the following weighted average assumptions:

	Year Ended December 31,	
	2020	2019
Dividend yield	0%	0%
Expected life (in years)	4.9	4.9
Expected volatility	64%	59%
Risk-free interest rate	0.5%	1.6%

The impact on our results of operations from share-based compensation expense was as follows (in thousands, except per share amounts):

	Year Ended December 31,	
	2020	2019
Cost of revenue— professional engineering service	$ 79	$ 1
Selling, general and administrative	735	546
Research and development	(2)	(28)
Total share-based compensation expense	$ 812	$ 519
Per basic share	$ 0.06	$ 0.04
Per diluted share	$ 0.06	$ 0.04

Stock option activity

The following table summarizes stock option activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Balance at December 31, 2018	1,390,012	$ 4.77	6.83	
Granted	958,798	1.69		
Exercised	-	-		
Forfeited	(251,213)	4.81		
Expired	(552,771)	5.07		
Balance at December 31, 2019	1,544,826	2.74	7.47	$ 46,582
Granted	683,900	1.08		
Exercised	(26,250)	1.34		
Forfeited	(215,218)	1.50		
Expired	(200,367)	4.82		
Balance at December 31, 2020	1,786,891	3.10	7.75	$ 330,831
Vested and expected to vest at December 31, 2020	1,593,216	2.12	7.63	278,883
Exercisable at December 31, 2020	609,781	$ 3.26	6.03	$ 19,668

At December 31, 2020, total compensation cost not yet recognized related to granted stock options was approximately $436,000, net of estimated forfeitures. This cost will be amortized on the straight-line method over a weighted-average period of approximately 1.4 years.

The following table summarizes certain additional information about stock options:

	Year Ended December 31,	
	2020	2019
Weighted average grant-date fair value for options granted during the year	$ 1.08	$ 1.33
Vested options in-the-money	71,993	344
Aggregate intrinsic value of options exercised during the year	$ 1	$ —

The aggregate intrinsic value represents the difference between the exercise price of the underlying options and the quoted price of our common stock for the number of options that were exercised during the periods indicated. We issue new shares of common stock upon exercise of stock options.

Restricted stock unit activity

The following table summarizes RSU activity:

	Number of Shares	Weighted Average Award Price
Unvested at December 31, 2018	186,516	$ 2.87
Granted	225,693	1.44
Vested	(264,720)	2.03
Forfeited	(34,643)	4.68
Unvested at December 31, 2019	112,846	1.44
Granted	219,596	1.48
Vested	(167,745)	1.45
Forfeited	-	-
Unvested at December 31, 2020	164,697	1.48
Expected to vest after December 31, 2020	158,504	$ 1.48

At December 31, 2020, total compensation cost not yet recognized related to granted RSUs was approximately $79,000, net of estimated forfeitures. This cost will be amortized on the straight-line method over a weighted-average period of approximately 0.3 years.

Common stock reserved for future issuance

The following table summarizes our shares of common stock reserved for future issuance under the Plans as of December 31, 2020:

Stock options outstanding	1,786,891
Restricted stock units outstanding	164,697
Stock options available for future grant	1,242,125
Common stock reserved for future issuance	3,193,713

12. Employee Benefit Plan

We maintain a Profit Sharing and Deferred Compensation Plan, The BSQUARE Corporation 401(k) Plan and Trust (the "Profit Sharing Plan") under Section 401(k) of the Internal Revenue Code. Substantially all full-time employees are eligible to participate in the Profit-Sharing Plan. We typically elect to match the participants' contributions to the Profit-Sharing Plan up to a certain amount subject to vesting. Participants will receive their share of the value of their investments, and any applicable vested match, upon retirement or termination. We made matching contributions of $135,000 and $256,000 in 2020 and 2019, respectively.

13. Significant Concentrations

Significant customer

No customers accounted for 10% or more of total revenue during 2020 or 2019.

Kodak Alaris had accounts receivable balances of approximately $866,000, or 15% of total accounts receivable, at December 31, 2020. Honeywell International, Inc. and affiliated entities ("Honeywell") had accounts receivable balances of approximately $680,000, or 12% of total accounts receivable, at December 31, 2020.

Honeywell had accounts receivable balances of approximately $1.2 million, or 13% of total accounts receivable, at December 31, 2019.

Significant supplier

We are authorized to sell Windows IoT operating systems in Canada, the United States, Argentina, Brazil, Chile, Mexico, Peru, Venezuela, Puerto Rico, Columbia, and several Caribbean countries. Our distribution agreement for sales of Windows IoT operating systems in the European Union ("E.U."), the European Free Trade Association, Turkey and Africa, expired on June 30, 2019 and was not renewed thereafter. We generated approximately 3% of our Partner Solutions software sales under this agreement in 2019.

We have also entered into ODAs with Microsoft pursuant to which we are licensed to sell Microsoft Windows Mobile operating systems to customers in North America, South America, Central America (excluding Cuba), Japan, Taiwan, Europe, the Middle East, and Africa. The ODAs to sell Windows Mobile operating systems are effective through April 30, 2022.

There is no automatic renewal provision in any of these agreements, and these agreements can be terminated unilaterally by Microsoft at any time.

The majority of our revenue continues to be derived from reselling Microsoft Windows Embedded and IoT operating system software to device makers. The sale of Microsoft operating systems has historically accounted for substantially all of our Partner Solutions revenue.

Microsoft currently offers a distributor incentives program through which we earn rebates pursuant to predefined objectives related to sales of Microsoft Windows IoT operating systems. In accordance with program rules, we allocate a portion of the incentive earnings to reduce cost of revenue with the remaining portion utilized to offset qualified marketing expenses in the period the expenditures are claimed and approved. During 2019, 20% was allocated to offset cost of revenue and the remaining 80% was potentially available to offset qualified marketing expenses. During the second quarter of 2020 the program allocation was changed by Microsoft to a 50/50 split between the two components.

Under this rebate program, we recorded rebate credits as follows (in thousands):

	Year Ended December 31,	
	2020	2019
Reductions to cost of revenue	$ 757	$ 314
Reductions to marketing expense	$ 1,115	$ 1,217

14. Paycheck Protection Program Loan

Our PPP Loan is evidenced by a promissory note, dated as of April 7, 2020 (the "Note"), between us and JPMorgan Chase Bank, N.A. (the "Lender"). The note has a two-year term, bears interest at the rate of 0.98% per annum, and may be prepaid at any time without payment of any premium or penalty. Under current statutes, no payments of principal or interest are due until July 25, 2021 (the "Deferral Period"). The principal and accrued interest under the Note is forgivable after an eight- or 24-week period if we used the PPP Loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and otherwise comply with PPP Loan requirements. The selection of the eight- or 24-week period is at our discretion. In order to obtain forgiveness of the PPP Loan, we must submit a request and provide satisfactory documentation regarding our compliance with applicable requirements. We must repay any unforgiven principal amount of the Note, with interest, on a monthly basis following the Deferral Period. We have used the proceeds of the PPP Loan for eligible purposes and intend to pursue forgiveness, although we may have taken or may in the future take action that could inadvertently cause some or all of the PPP Loan to become ineligible for forgiveness.

The Note contains customary events of default relating to, among other things, payment defaults and breaches of representations or warranties. The occurrence of an event may result in the repayment of all amounts outstanding, collection of all amounts owing from us, or filing suit and obtaining judgement against us.

At December 31, 2020 and December 31, 2019, the PPP Loan balance was as follows (in thousands):

	December 31, 2020	December 31, 2019
PPP Loan, .98%, due April 2022:		
Principal	$ 1,572	$ —
Accrued interest	12	—
	$ 1,584	$ —
PPP Loan payable:		
Current portion	$ 950	
Long-term portion	634	
	$ 1,584	$ —

15. Information about Operating Segments and Geographic Areas

Our chief operating decision-makers (i.e. our Chief Executive Officer and certain direct reports) review financial information presented on a consolidated basis, accompanied by disaggregated information for purposes of allocating resources and evaluating financial performance. There are no segment managers who are held accountable by our chief operating decision-makers, or anyone else, for operations, operating results, or planning for levels or components below the consolidated unit level. We operate within a single industry segment of computer software and services.

We have two major product lines, Partner Solutions and Edge to Cloud, each of which we consider to be operating and reportable segments. We do not allocate costs other than direct cost of goods sold to the segments or produce segment income statements, and we do not produce asset information by reportable segment. The following table sets forth profit and loss information about our segments (in thousands):

	Year Ended December 31,	
	2020	2019
Partner Solutions:		
Revenue	$ 42,257	$ 50,628
Cost of revenue	35,171	43,198
Gross profit	7,086	7,430
Edge to Cloud:		
Revenue	4,887	8,655
Cost of revenue	4,247	5,989
Gross profit	640	2,666
Total gross profit	7,726	10,096
Operating expenses	9,580	19,410
Other income, net	(35)	149
Income tax expense	-	(16)
Net loss	$ (1,889)	$ (9,181)

Revenue by geography is based on the sales region of the customer. The following tables set forth revenue and long-lived assets by geographic area (in thousands):

	Year Ended December 31,	
	2020	2019
Total revenue:		
North America	$ 40,339	$ 50,110
Asia	4,750	7,150
Europe	2,055	2,023
Total revenue	$ 47,144	$ 59,283

	December 31,	
	2020	2019
Long-lived assets:		
North America	$ 1,179	$ 2,016
Asia	178	177
Europe	-	340
Total long-lived assets	$ 1,358	$ 2,533

16. Impairment of Software Development Costs

For the twelve months of 2020 and 2019, we incurred charges of $0 and $0.4 million, respectively, for impairment of software development costs. The charges are reflected in the “Restructuring costs” line item on the Company’s consolidated statement of operations and comprehensive loss.

17. Restructuring Costs

In May 2019, we approved a severance plan that included a workforce elimination of approximately 38 positions in the U.S. and internationally. In October 2019, we determined to close our Taiwan branch office by December 31, 2019, which resulted in elimination of approximately 17 additional positions by the end of 2019. An involuntary termination benefit plan was provided to employees of the Taiwan branch in order to reduce go-forward operating costs and re-align our go-forward business model. The costs associated with these actions consisted primarily of charges for restructuring costs related to severance and benefits, and a non-cash impairment charge related to certain software development cost assets. We incurred aggregate restructuring charges of approximately $2.3 million associated with these actions during 2019, beginning in the second quarter of 2019. During the twelve months ended December 31, 2020, we did not incur charges for restructuring costs under this plan. For the twelve months ended December 31, 2020, $0.5 million in restructuring costs were paid and there is no remaining balance of accrued restructuring charges on our consolidated balance sheet at December 31, 2020.

Summary of Restructuring Costs

The following tables show the activity and estimated timing of future payouts for accrued restructuring costs (in thousands):

	Year Ended December 31,	
	2020	2019
Balance as of December 31, 2019	$ 461	$ —
Restructuring costs	—	2,343
Non-cash asset impairment charge	—	(375)
Cash payments	(461)	(1,507)
Balance as of December 31, 2020	$ —	$ 461

18. Quarterly Financial Information (Unaudited)

	Condensed Consolidated Statements of Operations 2020			
	Q1	Q2	Q3	Q4
	(in thousands, except per share data)			
Revenue	$ 16,729	$ 8,924	$ 10,420	$ 11,071
Gross profit	2,585	1,046	1,890	2,205
Loss from operations	(439)	(1,075)	(138)	(202)
Net loss	(474)	(1,073)	(136)	(206)
Basic loss per share	(0.04)	(0.08)	(0.01)	(0.02)
Diluted loss per share	$ (0.04)	$ (0.08)	$ (0.01)	$ (0.02)
Shares used in per share calculations:				
Basic	13,055	13,110	13,165	13,225
Diluted	13,055	13,110	13,165	13,225

	2019			
	Q1	Q2	Q3	Q4
	(in thousands, except per share data)			
Revenue	$ 15,096	$ 14,180	$ 14,641	$ 15,366
Gross profit	2,391	2,423	2,632	2,650
Loss from operations	(2,879)	(3,929)	(1,129)	(1,377)
Net loss	(2,846)	(3,868)	(1,107)	(1,360)
Basic loss per share	(0.22)	(0.30)	(0.09)	(0.10)
Diluted loss per share	$ (0.22)	$ (0.30)	$ (0.09)	$ (0.10)
Shares used in per share calculations:				
Basic	12,795	12,855	12,934	12,997
Diluted	12,795	12,855	12,934	12,997

Condensed Consolidated Balance Sheets	2020			
	March 31	June 30	September 30	December 31
	(in thousands)			
Cash, cash equivalents, restricted cash and short-term investments	$ 10,644	$ 12,582	$ 12,572	$ 12,960
Total current assets	22,002	20,245	19,062	20,002
Total assets	23,973	22,075	21,063	22,282
Total current liabilities	12,856	11,422	10,544	11,339
Total shareholders' equity	$ 9,401	$ 8,432	$ 8,622	$ 8,651

	2019			
	March 31	June 30	September 30	December 31
	(in thousands)			
Cash, cash equivalents, restricted cash and short-term investments	$ 15,000	$ 12,560	$ 11,610	$ 10,561
Total current assets	26,428	22,897	21,442	20,515
Total assets	29,673	24,967	23,056	23,055
Total current liabilities	12,464	11,882	11,226	11,200
Total shareholders' equity	$ 15,673	$ 11,835	$ 10,888	$ 9,696

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that the information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In connection with the preparation of this Form 10-K, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, as of December 31, 2020, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2020.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act and includes those policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. All internal controls, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework (2013)*.

Based on its assessment, our management concluded that, as of December 31, 2020, our internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fourth quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information***

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

General

Our Articles of Incorporation provide that the Board of Directors has seven seats. 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. There are no family relationships among any of our directors or officers.

Directors

The names and certain information about the nominees and each director are set forth below.

Name of Directors	Age	Position	Director Since	Term Expires
Robert J. Chamberlain	67	Director	2015	2023 (Class I)
Davin W. Cushman	47	Director	2018	2022 (Class III)
Ralph C. Derrickson	62	Director, President and Chief Executive Officer	2019	2021 (Class II)
Andrew S.G. Harries	59	Director	2012	2023 (Class I)
Mary Jesse	56	Director	2016	2022 (Class III)
Robert J. Peters	43	Director	2018	2022 (Class III)
Ryan Vardeman	43	Director	2018	2021 (Class II)

Robert J. Chamberlain has been a director since August 2015. Since April 2018, Mr. Chamberlain has been the Chief Financial Officer of ZipWhip, a two-way business texting software company. From August 2014 to April 2016, Mr. Chamberlain served as the Chief Financial Officer of Big Fish Games Incorporated, a leading provider of casual games, which was acquired by Churchill Downs, Inc. in December 2014. From February 2013 to August 2014, Mr. Chamberlain served as the Senior Vice President and Chief Financial Officer of Audience Science Incorporated, a leading provider of enterprise advertising management systems. Prior to that, Mr. Chamberlain was the Chief Financial Officer of other technology companies in the Seattle area including PopCap Games Incorporated (acquired by Electronic Arts, Inc.), WatchGuard Technologies Incorporated, F5 Networks, Onyx Software Corp. (acquired by Consona Corporation) and Photodisc (acquired by Getty Images, Inc.). Earlier in his career, Mr. Chamberlain was an audit partner in the Seattle office of KPMG where he served middle market public and private companies. Mr. Chamberlain has a B.S. in Business Administration-Accounting from California State University Northridge. Board of Directors has concluded that Mr. Chamberlain 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, and sales and marketing experience at KPMG.

Davin W. Cushman has been a director since November 2018. Mr. Cushman currently serves as CEO of Brightrose Software, a private, acquisition-focused growth company launched in 2021 from Cushman Management Company, a boutique advisory firm Mr. Cushman founded in 2010. Mr. Cushman started his career in 1996 with enterprise application pioneer Trilogy. Mr. Cushman's professional experience also includes roles in operations and workforce strategy with Capital One. Mr. Cushman most recently completed a 10+ year stint in 2020 as CEO of Ignite Technologies and its affiliates, a privately held group formed through more than 40 mergers and acquisitions of small to mid-sized software companies. Mr. Cushman holds a B.A. in Politics from Princeton University and an M.B.A. from the Kellogg School of Management from Northwestern University. The Board of Directors has concluded that Mr. Cushman should serve as a director because of his nearly 20 years in various roles in the enterprise software industry, including leadership of companies that provide software and technical consulting services to the types of organizations Bsquare serves.

Ralph C. Derrickson has been a director and our President and Chief Executive Officer since March 2019. Prior to that, since July 2018, Mr. Derrickson served as the Managing Director of RCollins Group, a strategic consulting company, and from October 2017 until July 2018, he served as the Senior Vice President of Corporate Development for Avizia, Inc., a telemedicine hardware, software and physician services company, until its acquisition by American Well in July 2018. From January 2006 until October 2017, Mr. Derrickson served as the President and Chief Executive Officer of Carena, Inc., a virtual care software and physician services company, until its acquisition by Avzia in October 2017. Prior to that, Mr. Derrickson was managing director of venture investments at Vulcan Inc., an investment management firm, was a founding partner of Watershed Capital, an early-stage venture capital firm, and held senior leadership positions at Metricom, Starwave Corporation (acquired by Walt Disney), NeXT Computer (acquired by Apple Computer) and Sun Microsystems. Since 2004, Mr. Derrickson has been a board member of Perficient, Inc. (NASDAQ: PRFT), a publicly traded digital transformation consulting company. Mr. Derrickson holds a B.T. in Systems Software Science from the Rochester Institute of Technology. The Board of Directors has concluded that Mr. Derrickson should serve as a director because of his experience as a chief executive officer, and in various other executive roles, which has provided him with broad leadership and executive experience, including operational, strategic planning, corporate development and mergers and acquisitions experience. As our President and Chief Executive Officer, Mr. Derrickson has first-hand knowledge of our business and provides valuable insight with respect to our operations and strategic opportunities.

Andrew S. G. Harries has been a director since November 2012, has served as the Chairman of the Board since July 2013 and served as the Executive Chairman from May 2018 to March 2019. Mr. Harries is a business advisor and corporate director and since 2016 has held the post of Tom Foord Professor of Practice in Innovation and Entrepreneurship at Simon Fraser University's Beedie School of Business. Mr. Harries chaired the board of directors of Contractually, an online contract management company, from January 2014 until its acquisition by Coupa Software in December 2015, and co-founded Zeugma Systems Inc. where he served as the President and Chief Executive Officer from 2004 until Tellabs Inc. acquired substantially all of Zeugma in 2010. Mr. Harries was a co-founder of Sierra Wireless (NASDAQ: SWIR), a NASDAQ-listed wireless Internet of Things systems vendor, from 1993 to 2004, and previously served as Sierra's Senior Vice President of Sales, Marketing and Operations. Prior to co-founding Sierra Wireless, Mr. Harries held a variety of positions at Motorola Inc. He holds three US patents and an M.B.A. 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.

Mary Jesse has been a director since August 2016. Ms. Jesse is a technology executive, strategist, inventor and pioneer in the wireless industry. In September 2019, Ms. Jesse joined Alvarez & Marsal as a Senior Director where she is currently assigned as Chief Operating Officer of Mobile Technologies, Inc. From January 2018 to August 2018, Ms. Jesse served as Chief Executive Officer and board member of Heyou Media, a technology-driven content company. From September 2015 to October 2017, she served as Chief Strategy Officer of VRstudios, a global virtual reality company based in Bellevue, Washington. From 2007 to October 2014, she was the founder and Chief Executive Officer of Ivy Corp., an enterprise messaging technology company. Prior to that, she served as the co-founder and Chief Technology Officer of RadioFrame Networks; Vice President of Strategic Technology of McCaw Cellular Communications, Inc.; and Vice President of Technology Development of AT&T Wireless. A licensed professional engineer, Ms. Jesse holds a B.S. in electrical engineering from the University of Utah and an M.S. in electrical engineering from Santa Clara University, in addition to having authored nineteen patents. She currently serves on the Washington Governors University business council in addition to serving as an advisor to multiple technology companies. Ms. Jesse volunteers her time to support STEM education, entrepreneurship and diversity in business and technology. The Board of Directors has concluded that Ms. Jesse should serve as a director because of her extensive technology product development experience and work with a wide range of emerging businesses.

Robert J. Peters has been a director since August 2018 and served as an observer to the Board from June to August 2018. Mr. Peters is a principal and co-founder of Palogic Value Management, L.P., the investment manager of Palogic Value Fund, LP, a Dallas, Texas based investment management company, a position he has held since January 2007. Mr. Peters routinely analyzes public companies' business plans, financial statements, and competitive positioning. Prior to founding Palogic, Mr. Peters was an investment banker with Stephens Inc., based in Little Rock, Arkansas, where he served as an analyst and associate responsible for execution of a variety of corporate finance transactions including sell side mergers and acquisitions, buy side mergers and acquisitions, leveraged buyouts, private equity investments, initial public offerings, and private placements of debt and equity. Mr. Peters attended Texas Tech University and received an M.S. in Accounting and a B.A. in Business Administration – Accounting. The Board of Directors has concluded that Mr. Peters should serve as a director because of his significant experience in equity capital markets, assessing corporate strategy, and capital allocation and given his affiliation with one of our largest shareholders.

Ryan L. Vardeman has been a director since June 2018. Mr. Vardeman is a principal and co-founder of Palogic Value Management, L.P., a Dallas, Texas based investment management company, a position he has held since January 2007. Mr. Vardeman has extensive corporate strategy, operating, financial and investment experience including capital structure analysis, a focus on small-cap equities, and investing in a broad range of industries with an emphasis on technology and software companies. Mr. Vardeman holds a B.S. in Electrical Engineering and Computer Science from Texas Tech University and an M.B.A. from the Owen Graduate School of Management at Vanderbilt University. The Board of Directors has concluded that Mr. Vardeman should serve as a director because of his extensive financial and operational experience and given his affiliation with one of our largest shareholders.

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 the business while leveraging the experience and perspectives of the Chairman. Our Chief Executive Officer has historically served as a member of and as the sole management representative on the Board of Directors. Mr. Derrickson is a director as well as our President and Chief Executive Officer. We believe it is important to enable our Chief Executive Officer to provide information and insight about us directly to the directors in their deliberations. Further, our Board of Directors believes that separating the Chief Executive Officer and Chairman of the Board roles as well as 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 its 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, 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 and oversees and approves company-wide risk management practices. Our Governance and Nominating Committee focuses on the management of risks associated with Board organization, membership, structure and corporate governance. In addition, 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 each of Messrs. Chamberlain, Cushman, Harries, Peters and Vardeman and Ms. Jesse, together constituting a majority of our Board of Directors, qualifies as an “independent” director as defined under applicable rules of The NASDAQ Stock Market LLC (“NASDAQ”) and that none of such directors has any relationship with us that would interfere with the exercise of their independent business judgment. Mr. Derrickson does not qualify as an “independent” director under applicable NASDAQ rules because he serves as our President and Chief Executive Officer.

Standing Committees and Attendance

The Board of Directors held six meetings during 2020. All directors 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 was a director or committee member during 2020.

The Board has an Audit Committee, a Compensation Committee and a Governance and Nominating Committee. Information about these standing committees and committee meetings is set forth below.

Audit Committee

The Audit Committee is currently comprised of Messrs. Chamberlain (Committee Chair) and Harries and Ms. Jesse. The Board of Directors has determined that, after consideration of all relevant factors, each of these directors qualifies as an “independent” director 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. No member of the Audit Committee has participated in the preparation of our consolidated financial statements, or those of any of our current subsidiaries, at any time during the past three years. The Board of Directors has designated Mr. Chamberlain as an “audit committee financial expert” as defined under applicable SEC rules and has determined that Mr. Chamberlain possesses the requisite “financial sophistication” under applicable NASDAQ rules.

The Audit Committee operates under a written charter setting forth the functions and responsibilities of the committee, which is reviewed by the committee on an annual basis, and 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 Corporate Governance page under Management and Corporate Governance - Board Committees and Charter Documents.

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 2020.

Compensation Committee

The Compensation Committee currently consists of Messrs. Cushman, Harries and Vardeman (Committee Chair). The Board of Directors has determined that, after consideration of all relevant factors, each of these directors qualifies as an “independent” and “non-employee” director under applicable NASDAQ and SEC rules. 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 2020.

The Compensation Committee has a number of functions and responsibilities as delineated in its written charter, which is reviewed by the committee on an annual basis, and 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 Corporate Governance page under Management and Corporate Governance - Board Committees and Charter Documents.

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 its evaluation to the Board of Directors;
- Developing and maintaining a succession plan for the 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 and related matters.

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, the role that our executive officers serve in recommending compensation and the role of compensation consultants in our compensation process is set forth under Item 11 “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 ("GNC") currently consists of Ms. Jesse (Committee Chair), Mr. Cushman and Mr. Peters. The Board of Directors has determined that, after consideration of all relevant factors, each of these directors qualifies as an "independent" director under applicable NASDAQ rules. The Governance and Nominating Committee held four meetings during 2020.

The Governance and Nominating Committee operates under a written charter setting forth the functions and responsibilities of the committee, which is reviewed by the committee on an annual basis, and 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 Corporate Governance page under Management and Corporate Governance - Board Committees and Charter Documents.

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 us;
- Evaluate the composition and performance of the Board of Directors;
- Ensure directors are keeping abreast of current governance standards; and
- Provide oversight in the evaluation of the Board of Directors and each committee.

The Board of Directors has determined that director nomination responsibilities should be overseen by the GNC. One of the GNC's goals is to assemble a Board that brings to us a variety of perspectives and skills derived from high quality business and professional experience. Although the GNC and the Board of Directors do not have a formal diversity policy, the Board of Directors instructed the GNC 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 GNC 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, the Internet of Things industry, 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 us and our 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 GNC, there are no stated minimum criteria, qualities or skills for director nominees. The GNC may also consider such other factors as it may deem are in the best interests of us and our 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 GNC 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 GNC 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 GNC 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 GNC 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 GNC's criteria. Research may also be performed to identify qualified individuals. Nominees for director are selected by a majority of the members of the GNC, with any current directors who may be nominees themselves abstaining from any vote relating to their own nomination.

It is the policy of the GNC to consider suggestions for persons to be nominated for director that are submitted by shareholders. The GNC 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 Corporation, a description of the proposed nominee's relationship to the shareholder and any information that the shareholder feels will fully inform the GNC about the proposed nominee and his or her qualifications. The GNC 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.

Executive Officers

The names and certain information about the Executive Officers are set forth below.

Name	Age	Position
Ralph C. Derrickson	62	Director, President and Chief Executive Officer
Christopher V. Wheaton	49	Chief Financial Officer, Chief Operating Officer, Secretary and Treasurer

Mr. Derrickson's biographical details are set out above under the heading titled "Directors."

Christopher Wheaton joined us as Chief Financial Officer in September 2019. Prior to joining Bsquare, in November 2018, Mr. Wheaton was employed at IslandWood, a non-profit environmental education organization and served as its interim Chief Financial and Operating Officer from January 2019 to September 2019. From April 2015 to September 2018, Mr. Wheaton served as the Chief Operating and Financial Officer for Pacific Science Center Foundation, a non-profit educational organization. From July 2003 until April 2015, Mr. Wheaton co-founded and served as the Chief Operating and Financial Officer for EnerG2 Technologies, Inc., an advanced carbon materials manufacturing company. Prior to 2003, Mr. Wheaton was employed by several public and private companies in senior financial management positions. Mr. Wheaton received a B.A. from Northwestern University and an MBA from the Stanford Graduate School of Business.

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 employees. A copy of the Code of Business Conduct and Ethics is available on our website at www.bsquare.com on the Corporate Governance page under Management and Corporate Governance – Policies. We will disclose, on our website, any amendment to, or waiver from, 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.

Item 11. *Executive Compensation*

2020 Director Compensation

When joining the Board, we historically granted directors a one-time grant of 25,000 stock options, which vest quarterly over two years, and an initial grant of restricted stock units, or RSUs. The Chairman of the Board historically received 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). Starting in 2021, we eliminated the option component of director compensation and established a floor price of $3.25 for all RSUs awarded to directors. 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. The Board of Directors may also determine to pay these cash amounts in RSUs, subject to a floor price of $3.25 per RSU. All cash amounts are payable in quarterly increments. Directors are also reimbursed for reasonable expenses incurred for Board-related activities. Notwithstanding the foregoing, directors who are also our employees, including Mr. Derrickson, our President and Chief Executive Officer, do not receive additional compensation for services provided as a director.

The table below presents the 2020 compensation of our non-employee directors. The compensation of Ralph C. Derrickson, a director and President and Chief Executive Officer, is described later in this Item 11 “Executive Officer Compensation.”

Director Compensation Table

Name	Fees Earned or Paid in Cash (1)	Stock Awards (2)	Option Awards (3)	Total
Robert J. Chamberlain (4)	$40,000	$50,000	$-	$90,000
Davin W. Cushman (5)	46,889	50,000	-	96,889
Andrew S.G. Harries (6)	55,000	75,000	-	130,000
Mary Jesse (7)	48,000	50,000	-	98,000
Robert J. Peters (8)	35,000	50,000	-	85,000
Ryan Vardeman (9)	35,000	50,000	-	85,000

(1) Fees paid earned or paid in cash are composed of payments for services performed in each prior quarter.

(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 (“Topic 718”) without regard to forfeitures. The amounts included reflect only the awards treated as granted in 2020. Assumptions used in the calculation of these award amounts are set forth in Note 11 (Shareholders’ Equity) to the financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

(3) The amounts in this column reflect the aggregate grant-date fair value of stock option awards, determined in accordance with Topic 718 without regard to forfeitures. The amounts included reflect only the awards treated as granted in 2020. Assumptions used in the calculation of these award amounts are set forth in Note 11 (Shareholders’ Equity) to the financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

(4) Mr. Chamberlain held 25,000 vested stock options and 25,338 unreleased restricted stock units as of December 31, 2020.

(5) Mr. Cushman was appointed to our Board in November 2018 and held 25,000 vested stock options and 25,338 unreleased restricted stock units as of December 31, 2020.

(6) Mr. Harries held 25,000 vested stock options and 38,007 unreleased restricted stock units as of December 31, 2020.

(7) Ms. Jesse held 25,000 vested stock options and 25,338 unreleased restricted stock units as of December 31, 2020.

(8) Mr. Peters was appointed to our Board in August 2018 and held 25,000 vested stock options and 25,338 unreleased restricted stock units as of December 31, 2020.

(9) Mr. Vardeman was appointed to our Board in June 2018 and held 25,000 vested stock options and 25,338 unreleased restricted stock units as of December 31, 2020.

2020 Executive Officer Compensation

The following table sets forth the compensation earned during the past two fiscal years by Ralph C. Derrickson, our President and Chief Executive Officer, and Christopher Wheaton, our Chief Financial Officer, Chief Operating Officer, Secretary and Treasurer. We did not have any other executive officers during 2020. We refer to these persons as our "named executive officers."

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	All Other Compensation (3)	Total
Ralph C. Derrickson	2020	$325,000	$-	$-	$-	$34,673	$359,673
President and Chief Executive Officer	2019	256,250	-	-	1,108,125	9,111	$1,373,486
Christopher V. Wheaton	2020	275,000	-	-	34,500	18,723	$328,223
Chief Financial Officer, Chief Operating Officer, Secretary and Treasurer	2019	72,981	-	-	164,050	3,938	$240,969

(1) The amounts in this column reflect the aggregate grant-date fair value of restricted stock unit awards, determined in accordance with Topic 718 without regard to forfeitures. The amounts included for a particular year reflect only the awards treated as granted in that year. Assumptions used in the calculation of these award amounts are set forth in Note 11 (Shareholders' Equity) to the financial statements included in Part II, Item 8 of our 2020 10-K.

(2) The amounts in this column reflect the aggregate grant-date fair value of stock option awards, determined in accordance with Topic 718 without regard to forfeitures. The amounts included for a particular year reflect only the awards treated as granted in that year. Assumptions used in the calculation of these award amounts are set forth in Note 11 (Shareholders' Equity) to the financial statements included in Part II, Item 8 of our 2020 10-K.

(3) Represents 401(k) matching employer contributions, premiums paid by us under a group medical or life insurance plan, and any other allowances for parking and mobile telephone / data service, which includes personal use.

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 our agreement with Mr. Derrickson entered into in February 2019, Mr. Derrickson is entitled to receive an annual salary of $325,000 and is eligible to receive an annual bonus equal to 50% of his annual salary at 100% achievement. He also received an option to purchase 562,500 shares of common stock. In the event Mr. Derrickson's employment is terminated by us when neither cause nor long term disability exists (as such terms are defined in the agreement), subject to execution of a release by Mr. Derrickson of any employment-related claims, he shall be entitled to receive severance equal to nine months of his then annual base salary, continued COBRA coverage at our expense for a period of nine months following his termination date and a pro rata portion of his annual bonus as determined by the Compensation Committee. In the event that, within twelve months after a change of control of Bsquare (as defined in the agreement), Mr. Derrickson's employment is terminated when neither cause nor long term disability exists or Mr. Derrickson terminates his employment for good reason (as defined in the agreement), subject to execution of a release by Mr. Derrickson of any employment-related claims, he shall be entitled to receive a one-time lump sum severance payment equal to twelve months of his then annual base salary, 100% of his target annual bonus as determined by the Compensation Committee, and continued COBRA coverage at our expense for a period of twelve months following his termination date (provided that, during the first twelve months after a change of control of Bsquare, such severance payments shall be in lieu of the severance payments described in the preceding sentence, and after expiration of the twelve -month period following a change of control, Mr. Derrickson shall thereafter only be entitled to the severance payments described in the preceding sentence). In addition, immediately prior to a change of control of Bsquare, all of Mr. Derrickson's unvested stock options and restricted stock units shall become fully vested and immediately exercisable.

Under our agreement with Mr. Wheaton entered into in August 2019, Mr. Wheaton is entitled to receive an annual salary of $275,000 and is eligible to receive an annual bonus of $100,000 at 100% achievement. He also received an option to purchase 129,173 shares of our common stock. In the event that, within twelve months after a change of control of Bsquare (as defined in the agreement), Mr. Wheaton's employment is terminated when neither cause nor long term disability exists or Mr. Wheaton terminates his employment for good reason (as defined in the agreement), subject to execution of a release by Mr. Wheaton of any employment-related claims, he shall be entitled to receive a one-time lump sum severance payment equal to six months of his then annual base salary, 100% of his target annual bonus as determined by the Compensation Committee, and continued COBRA coverage at our expense for a period of six months following his termination date. In addition, immediately prior to a change of control of Bsquare, all of Mr. Wheaton's unvested stock options shall become fully vested and immediately exercisable.

Determination of Compensation

The Compensation Committee's philosophy regarding total executive compensation has been to provide a comprehensive and competitive compensation package consisting of base salary and performance-based incentives that help align executive compensation with shareholder interests and promote growth in shareholder value. The Compensation Committee believes total executive compensation is below market peer median levels. We also periodically review the level of incentive-based compensation

for each member of our executive team. We intend to maintain competitive levels of compensation for our management team. In 2021, we determined to award performance-based RSUs in lieu of annual cash bonuses, vesting based on stock performance and service conditions.

Total Compensation

For purposes of evaluating executive officer total compensation, the Compensation Committee primarily considers two factors:

- *Competitive level*: The Compensation Committee has the authority to engage its own advisers to assist in carrying out its responsibilities. The Compensation Committee has from time to time historically engaged a compensation consultant to review and assess the market competitiveness of our executive compensation programs.
- *Company and individual performance objectives*: In addition to considering compensation levels of executives at similarly sized regional public companies, the Compensation Committee reviews our financial and non-financial performance objectives applicable to each executive. Our performance objectives are typically determined through collaboration with the Chief Executive Officer, the Board of Directors and the Compensation Committee. The Compensation Committee determines the financial and non-financial performance objectives applicable to the Chief Executive Officer (without his participation). These objectives and associated awards have historically been addressed through annual cash or equity bonuses with respect to our executive officers.

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 a benchmark group), but instead considers the general market compensation data along with our 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 or equity bonuses.

Short-Term Incentive Plan Compensation (STI)

We have historically awarded short-term incentive compensation to our named executive officers, including annual cash or equity bonuses, the terms of which vary from year to year.

In March 2020, upon the recommendation of the Compensation Committee, our Board of Directors adopted the Bsquare Corporation Executive Bonus Plan ("EBP"), which formalized the Company's historical practice of awarding annual bonuses to certain key executives of the Company based on achievement of specified performance goals. Awards may be in the form of cash or equity granted under the Stock Plan. The Board designated the Committee as the administrator of the EBP (the "Administrator"). The Administrator may establish performance goals that relate to financial, operational or other performance of the Company, or to any other performance goal established by the Administrator in connection with a potential bonus payment (the "Performance Goals"). Pursuant to the EBP, the Administrator established Performance Goals for 2020 relating to segment revenues and contribution margin and working capital levels. Following completion of the 2020 Performance Period, the amounts payable to each Covered Executive under the EBP will be based entirely on the determination of the Administrator regarding the level of achievement of the Performance Goals. The Administrator has authority to revise or refine the Performance Goals in its discretion. The EBP was also reassessed and restructured to more tightly align compensation with both short- and long-term shareholder interests and to be responsive to prior shareholder advisory votes on executive compensation.

Long-Term Equity Incentive Awards (LTI)

Longer-term incentives in the form of grants of stock options, restricted stock, RSUs and other forms of equity instruments to executive officers are governed by the Stock Plan or our 2011 Inducement Award Plan (the "Inducement Plan"), as applicable.

The Compensation Committee grants stock options and other forms of equity incentive compensation to our executive officers under the Stock Plan or Inducement Plan. Stock options have historically been granted at the time of hire of an executive officer under the Inducement Plan, although we stopped using the Inducement Plan in 2019. Further, the Compensation Committee periodically reviews the equity ownership of the executive officers and may determine that additional awards of equity instruments under the Stock Plan are warranted based on a number of factors, including competitive factors, company and individual performance, the vested status of currently outstanding equity awards, the executive's equity ownership in relation to that of 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. Our only equity award to executive officers in 2020 was an August 2020 award to Mr. Wheaton of options to acquire 25,000 shares of our common vesting, which vests 25% on the one-year anniversary and the balance in equal monthly installments for three years thereafter.

Other Compensation and Perquisites

Executive officers, including the named executive officers, are eligible to participate in standard benefit plans available to all employees including our 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 because they are more highly compensated than most other employees (e.g., disability benefits). We do not provide any pension or deferred compensation benefits to our executive officers.

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, 2020:

Name	Grant Date	Number of Securities Underlying Unexercised Options		Option Exercise Price (1)	Option Expiration Date (2)
		Exercisable (#)	Unexercisable (#)		
Ralph C. Derrickson	03/11/19	164,063	210,937	$1.97	03/11/29
	03/11/19	-	187,500	1.97	03/11/29
Christopher V. Wheaton	09/09/19	40,367	88,806	1.27	09/09/29
	08/26/20	-	25,000	1.38	08/26/30

(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.

Employee Benefit Plans

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. Company matching contributions and employee 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 us 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.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

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, 2020:

	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	1,215,140(1)	$ 1.84	954,355
Equity compensation plans not approved by security holders	736,448(2)	1.93	287,770(3)

(1) Amount includes 164,697 restricted stock units granted and unvested as of December 31, 2020.

(2) Amount includes no restricted stock units granted and unvested as of December 31, 2020.

(3) Indicates shares of our common stock reserved for future issuance under the Inducement Plan. The Inducement Plans allow us to grant options, restricted stock, restricted stock units and certain other equity-based compensation in connection with hiring new employees. The number of shares reserved for issuance may be modified by the Board of Directors, subject to SEC and NASDAQ limitations. There were 791,673 options and no restricted stock units granted under the Inducement Plan during 2019. Following these awards, we determined to stop using the Inducement Plan in 2019.

The following table sets forth certain information regarding the beneficial ownership of our common stock as of February 28, 2021 by:

- each person who is known by us to own beneficially more than five percent (5%) of the outstanding shares of common stock;
- each of our directors;
- 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 owned plus settled RSUs; the number of shares listed under the heading "Deemed Outstanding Shares" includes vested stock options plus unvested options and restricted stock units that may be exercised or settled for common stock within 60 days after February 28, 2020. Deemed Outstanding Shares are considered beneficially owned by the holder for the purpose of computing share and percentage ownership of that holder presented below, but are not treated as outstanding for the purpose of computing the percentage ownership of any other holder presented below.

This table is based on information supplied by officers, directors, and filings made with the SEC. Percentage ownership is based on 13,298,150 shares of common stock outstanding as of February 28, 2020.

Unless otherwise noted below, the address for each shareholder listed below is c/o Bsquare Corporation, 1415 Western Avenue, Suite 700, Seattle, Washington 98101. 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	Deemed Outstanding Shares	Percentage of Common Stock Equivalents
5% Owners:			
Palogic Value Management, L.P (1)	1,585,711	-	11.9%
Harvest Hill Road, Suite 110			
Dallas, TX 75230			
Renaissance Technologies LLC (2)	1,134,531	-	8.5%
800 Third Avenue			
New York, NY 10022			
Directors and Named Executive Officers:			
Ryan Vardeman (3)	1,653,992	33,446	12.7%
Andrew S.G Harries	298,290	37,669	2.5%
Ralph C. Derrickson	35,000	246,094	2.1%
Robert J. Chamberlain	93,871	33,446	1.0%
Davin Cushman	86,700	33,446	0.9%
Mary Jesse	86,440	33,446	0.9%
Rob Peters (4)	71,046	33,446	0.8%
Christopher V. Wheaton	15,000	51,132	0.5%
All executive officers and directors as a group	2,340,339	502,125	20.6%

(1) The indicated ownership is based solely on SEC Form 4, filed with the SEC on August 28, 2020, according to which Palogic Value Management, L.P., Palogic Value Fund, L.P., Palogic Capital Management, LLC and Mr. Vardeman then had shared voting and dispositive power such shares.

(2) The indicated ownership is based solely on a Schedule 13G/A filed with the SEC on February 11, 2021 (the “RT 13G/A”) according to which each of Renaissance Technologies LLC and Renaissance Technologies Holdings Corporation has sole voting power and dispositive power over such shares.

(3) Mr. Vardeman is a principal of and may be deemed to beneficially own securities beneficially owned by Palogic Capital Management.

(4) Mr. Peters is a principal of Palogic Capital Management but does not have dispositive or voting power over shares beneficially owned by Palogic Capital Management.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Related Party Transactions

There were no transactions since January 1, 2020, nor are there any proposed transactions, as to which the amount involved exceeds $120,000 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 the headings “2020 Director Compensation” and “2020 Executive Officer Compensation.”

Directors Independence

See “Board of Director Independence” set forth in Item 10.

Item 14. *Principal Accounting Fees and Services*

Audit Fees

We paid Moss Adams audit fees of $260,108 and $272,840 during the years ended December 31, 2020 and 2019, respectively. These audit fees related to professional services rendered in connection with the audit of our annual consolidated financial statements, the reviews of the consolidated financial statements included in each of our 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 2020 or 2019 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 2019 or 2018 for tax compliance, tax advice or tax planning services rendered to us by Moss Adams.

All Other Fees

We paid Moss Adams $38,143 and $40,573 during 2020 and 2019, respectively, for fees associated with a SOC Type-2 examinations and other administrative fees.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

(a) Financial Statements and Schedules

1. *Financial Statements*

See “Index to Consolidated Financial Statements” in Part II Item 8 of this report.

2. *Financial Statement Schedules*

Financial statement schedules not included herein have been omitted because they are either not required, not applicable, or the information is otherwise included herein.

3. *Exhibits*

Exhibits are incorporated herein by reference or are filed with this report as indicated below.

(b) Exhibits

Exhibit Number	Description	Filed or Furnished Herewith	Incorporated by Reference			
			Form	Filing Date	Exhibit	File No.
3.1	Amended and Restated Articles of Incorporation		S-1	8/17/1999	3.1(a)	333-85351
3.1(a)	Articles of Amendment to Amended and Restated Articles of Incorporation		10-Q	8/7/2000	3.1	000-27687
3.1(b)	Articles of Amendment to Amended and Restated Articles of Incorporation		8-K	10/11/2005	3.1	000-27687
3.2	Amended and Restated Bylaws		8-K	8/11/2020	3.2	000-27687
4.1	Description of Capital Stock		10-K	2/25/2020	4.1	000-27687
10.1(1)	Fourth Amended and Restated Stock Plan, as amended		S-8	8/8/2017	4.1	333-219799
10.1(a)(1)	Form of Stock Option Agreement		10-Q	8/9/2012	10.19(a)	000-27687
10.1(b)(1)	Form of Restricted Stock Grant Agreement		10-Q	8/9/2012	10.19(b)	000-27687
10.1(c)(1)	Form of Restricted Stock Unit Agreement 2011		10-Q	8/9/2012	10.19(c)	000-27687
10.2(1)	Inducement Award Plan		10-Q	11/10/2011	10.1	000-27687
10.2(a)(1)	Form of Stock Option Agreement under the 2011 Inducement Award Plan		10-Q	11/10/2011	10.1(a)	000-27687
10.2(b)(1)	Form of Restricted Stock Unit Agreement under the 2011 Inducement Award Plan		10-K	2/19/2015	10.2(b)(1)	000-27687
10.3(1)	Executive Bonus Plan		8-K	3/20/2020	10.1	000-27687
10.4(1)	Form of Indemnification Agreement		10-K	2/21/2017	10.3	000-27687
10.5	Market Square Office Lease between 1415 Western LLC and Bsquare Corporation	X				
10.6(1)	Employment letter agreement with Ralph Derrickson dated February 4, 2019 Employment		10-K	2/25/2020	10.11	000-27687
10.7(1)	letter agreement with Christopher Wheaton dated August 20, 2019		8-K	8/23/2019	10.1	000-27687
10.8(2)	Microsoft OEM Distribution Agreement for Software Products for Embedded Systems with Microsoft Licensing, GP effective July 1, 2014		10-Q	8/14/2014	10.1	000-27687
10.9	Board Observer Agreement with Palogic Value Fund, L.P, Palogic Value Management, L.P. and Palogic Capital Management, LLC dated June 25, 2018		8-K	6/26/2018	10.1	000-27687
10.10	Promissory note, dated as of April 7, 2020 with JPMorgan Chase Bank, N.A.		8-K	4/16/2020	10.1	000-27687
21.1	Subsidiaries of the registrant	X				
23.1	Consent of Independent Registered Public Accounting Firm	X				
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) under the Securities and Exchange Act of 1934	X				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) under the Securities and Exchange Act of 1934	X				

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Exhibit Number	Description	Filed or Furnished Herewith	Incorporated by Reference			
			Form	Filing Date	Exhibit	File No.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.INS	XBRL Instance Document	X				
101.SCH	XBRL Taxonomy Extension Schema Document	X				
101.CAL	XBRL Taxonomy Extension Calculation Document	X				
101.DEF	XBRL Taxonomy Extension Definitions	X				
101.LAB	XBRL Taxonomy Extension Label Document	X				
101.PRE	XBRL Taxonomy Extension Presentation Document	X				

(1) Indicates a management contract or compensatory plan or arrangement.
(2) Confidential treatment has previously been granted by the SEC for certain portions of the referenced exhibit.

Item 16. ***Form 10-K Summary***

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BSQUARE CORPORATION

Date: March 18, 2021 By: /S/ RALPH C. DERRICKSON
Ralph C. Derrickson
President and Chief Executive Officer

Date: March 18, 2021 By: /S/ CHRISTOPHER WHEATON
Christopher Wheaton
Chief Financial and Operating Officer, Secretary and Treasurer

POWER OF ATTORNEY

Each person whose individual signature appears below hereby authorizes and appoints Ralph C. Derrickson and Christopher Wheaton, and each of them, with full power of substitution and resubstitution and full power to act without the other, as his true and lawful attorney-in-fact and agent to act in his name, place and stead and to execute in the name and on behalf of each person, individually and in each capacity stated below, and to file, any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in fact and agents, and each of them, full power and authority to do and perform each and every act and thing, ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on March 18, 2021, on behalf of the registrant and in the capacities indicated.

Signature	Title
/S/ RALPH C. DERRICKSON **Ralph C. Derrickson**	President and Chief Executive Officer (Principal Executive Officer)
/S/ CHRISTOPHER WHEATON **Christopher Wheaton**	Chief Financial and Operating Officer, Secretary and Treasurer (Principal Financial Officer)
/S/ ANDREW S. G. HARRIES **Andrew S. G. Harries**	Chairman of the Board
/S/ ROBERT J. CHAMBERLAIN **Robert J. Chamberlain**	Director
/S/ DAVIN W. CUSHMAN **Davin W. Cushman**	Director
/S/ MARY JESSE **Mary Jesse**	Director
/S/ ROBERT J. PETERS **Robert J. Peters**	Director
/S/ RYAN L. VARDEMAN **Ryan L. Vardeman**	Director

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Exhibit 10.5

MARKET SQUARE
OFFICE LEASE

REFERENCE DATE: _____.

This Lease (this "**Lease**") is made and entered into by and between 1415 WESTERN LLC, a Washington limited liability company ("**Landlord**"), and BSQUARE CORPORATION, a Washington corporation ("**Tenant**").

1. BASIC TERMS.

This Section sets forth certain basic terms of this Lease for reference purposes. This Section is to be read in conjunction with the other provisions of this Lease and if there is any inconsistency between this Section and the other provisions of this Lease, this Section shall control.

1.1 Premises: Suite 700 of the Building, as shown on the floor plan attached hereto as **Exhibit B**.

1.2 Premises Rentable Area: The Premises shall be deemed to have an agreed area of 6,780 square feet. (See Section 2)

1.3 Building: The building located at 1415 Western Ave., Seattle, WA, which shall be deemed to have an agreed area of 44,262 square feet.

1.4 Commencement Date: The date on which Landlord delivers the Premises to Tenant which shall occur promptly following mutual execution of this Lease.

1.5 Term: 87 full calendar months, commencing on May 1, 2020 (the "**Rent Commencement Date**") and ending on July 31, 2027 ("**Expiration Date**") (See Section 3).

1.6 Extension Option: One option for Tenant to extend the Term for an additional 60 months. (See Rider, Section 1)

1.7 Base Rent:

1.7.1 Abatement of Rent: Base Rent shall be abated for three full months of the Term commencing on the Rent Commencement Date, subject to the terms and conditions of this Lease ("**Rent Abatement**"). No Base Rent nor Common Expenses shall be due and payable from the Commencement Date until the Rent Commencement Date (the "**Tenant Construction Period**"); provided, however, Tenant shall pay separately metered utilities serving the Premises during the Tenant Construction Period.

1.7.2 Base Rent Schedule:

Period	**Annual Base Rent/SF**	**Annual Base Rent**	**Monthly Base Rent Installment**
Rent Commencement Date - End of First Lease Year	$35.00	$237,300	$19,775
Lease Year 2	$36.00	$244,080	$20,340
Lease Year 3	$37.00	$250,860	$20,905
Lease Year 4	$38.00	$257,640	$21,470
Lease Year 5	$39.00	$264,420	$22,035
Lease Year 6	$40.00	$271,200	$22,600
Lease Year 7	$41.00	$277,980	$23,165
Lease Year 8	$42.00*	$284,760	$23,730

*This Base Rent rate applies only until the end of the initial Term. If Tenant exercises its option to extend, Base Rent shall be set as provided in Rider Section 1.

1.8 Lease Year: The initial Lease Year shall consist of any partial month following the Lease Commencement Date, and the subsequent 12 full calendar months. Each subsequent Lease Year shall consist of a consecutive period of 12 full calendar months.

1.9 Tenant's Share of Common Expenses: 15.32%. (See Section 5)

1.10 Base Year: Calendar year 2020.

1.11 Prepaid Base Rent: $19,775, payable upon Tenant's execution of the Lease, which prepaid Base Rent shall be applied to the Base Rent due for the fourth month of the Term following the Rent Commencement Date.

1.12 Security Deposit: $23,730, payable upon Tenant's execution of the Lease, which Security Deposit shall be treated in accordance with Section 9.

1.13 Tenant Improvement Allowance: Up to $203,400.00 (i.e., up to $30.00/sf of the Premises). (See Lease Rider Section 4)

1.14 Permitted Uses: General office use and any ancillary lawful uses which are consistent with the operation of a first class office building, and no other use.

1.15 Intentionally omitted.

1.16: Brokers: Landlord's Broker: Colliers International
Tenant's Brokers: Dan Stutz and Pete Hollomon of CBRE

1.17 Landlord's Addresses for Notices, Rent:

Pinnacle Commercial
Attn: Shawn Safavi
11235 SE 6th Street, Suite 200
Bellevue, WA 98004
Email: ssafavi@pinnacle-commercial.com
Telephone: 206.215.9880

With a copy of notices to:
1415 Western LLC
Attn: Tim Cavanaugh
2607 Second Ave., Suite 300
Seattle, WA 98121
Email: tim@starequityllc.com
Telephone: 206.443.8440

1.18 Property Manager:

Pinnacle Commercial
Attn: Shawn Safavi
11235 SE 6th St., Suite A200
Bellevue, WA 98004
Email: ssafavi@pinnacle-commercial.com
Telephone: 206.215.9880

1.19 Tenant's Notice Address:

	Prior to Commencement Date	*After Commencement Date*
Name	Bsquare Corporation Attn: Chris Wheaton	Bsquare Corporation Attn: Chris Wheaton
Address	110 110th Avenue NE, Suite	1415 Western Avenue, Suite 700
	Bellevue, WA 98004	Seattle, WA 98101
Phone	425.519.5904	425.519.5904
Fax		

1.20 Exhibits. The following riders and exhibits are attached to, and are a part of, this Lease:

Rider To Lease	Additional Provisions
Exhibit A	Legal Description
Exhibit B	Floor Plan
Exhibit C	Work Letter
Exhibit D	Rules and Regulations

2. PREMISES/TENANT IMPROVEMENTS

2.1. Premises. The "**Premises**" shall be the space in the Building described in Section 1.1 and shown on the floor plan attached as **Exhibit B**. The "**Building**" is located at the address specified in Section 1.3 and on the real property described in **Exhibit A** (together with all improvements thereon, the "**Project**"). The agreed area of the Premises is listed in Section 1.2. Landlord hereby leases the Premises to Tenant on the terms of this Lease, but reserving to Landlord the use of the exterior thereof, including, without limitation, the roof and exterior walls, all space above any suspended ceiling, all space beneath the floor, and the right to install, maintain, use, repair, relocate and replace stacks, pipes, ducts, conduits, wire and utilities leading through the Premises, in locations which do not materially interfere with Tenant's use thereof. Tenant shall have access 24 hours per day, subject to closures for emergencies, repairs, work, and similar matters and disruptions outside Landlord's control.

2.2. Common Areas. References herein to "common areas" shall mean all areas of the Project not leased to tenants for their exclusive use. Landlord shall make available from time to time such public portions of the common areas as Landlord deems appropriate. As part of Common Expenses (Section 5.1), Landlord is responsible for operating and maintaining the common areas and Landlord may change the size, location, nature and use of any common areas, provided that such changes do not materially and unreasonably interfere with Tenant's access to or use of the Premises. Without limiting the foregoing, Landlord may erect scaffolding, barriers, and other structures in the common areas where required, in Landlord's sole discretion, in connection with work to be performed at the Project, provided that the access to the Premises and use of the Premises shall not be unreasonably blocked or unreasonably interfered with given the nature of the work and Landlord shall use commercially reasonable efforts to minimize the impacts on Tenant's access and use. Tenant has the nonexclusive right to use those common areas which from time to time are designated for such use by Landlord, subject to the terms of this Lease. Tenant shall not store anything outside the Premises. Subject to any specific access provisions elsewhere in this Lease, Tenant shall not permit any employee, contractor or guest onto the roof of the Building or into any other non-public areas of the Project, except the Premises. Tenant acknowledges that the State of Washington Department of Transportation and/or the City of Seattle have commenced demolition and replacement of, and related work pertaining to, the Alaskan Way Viaduct ("**Viaduct Work**"), and that such Viaduct Work may cause temporary changes in, or disruption to, access to the Project and/or surrounding areas. Tenant agrees that none of the Viaduct Work shall be a breach of Landlord's obligations, covenants or warranties under this Lease, at law or in equity.

2.3 Delivery; Acceptance of Condition. Landlord shall deliver the Premises to Tenant promptly following mutual execution of this Lease and Landlord's receipt of Tenant's Security Deposit and Prepaid Base Rent. "**Deliver**" means to notify Tenant that its representative may pick up such keys, codes, and card keys as may be necessary to gain access to the Premises at Landlord's management office. Except as otherwise provided under this Lease, Tenant accepts the Premises in its "as-is, where-is" condition as of the execution of this Lease, subject to all laws, ordinances, and governmental regulations and Tenant is obligated to comply therewith under the terms of this Lease. Tenant (a) acknowledges that neither Landlord nor any agent of Landlord has made any representation or warranty as to the condition of the Premises or Project except as provided under the terms of this Lease, or the suitability of the Premises for Tenant's intended use, and (b) represents that Tenant has made its own inspection of the Premises and Project and has entered into this Lease based solely on such inspection. Notwithstanding anything to the contrary above or elsewhere in this Lease, Landlord represents and warrants to Tenant as of the date that Landlord delivers the Premises to Tenant, that (i) the Premises shall be in conformance with Applicable Requirements (as defined in Section 6.6) in effect as of the date of delivery (provided, however, that any violation of Applicable Requirements as a result of the Tenant's Work shall not be the responsibility of Landlord pursuant to this Section 2.3), and (ii) the heating, ventilation and air conditioning system, electrical, plumbing, mechanical, fire, life safety, and, if applicable, security systems serving the Premises shall be in good working order (provided, however, that any additional improvements to the mechanical, fire, life safety, and, if applicable, security systems, that is required as a result of Tenant's Work shall not be the responsibility of Landlord pursuant to this Section 2.3). Landlord does not represent, and Tenant does not rely on the fact, that any specific tenant or tenants will occupy space in the Project during the Term (as defined in Section 3). Tenant acknowledges and agrees that Landlord shall have no responsibility or liability of any kind in connection with any municipal traffic restrictions that impact entry and/or exit patterns to the Project or any noise created by sources outside the Project, and neither such traffic restrictions nor noise shall be construed to be a breach by Landlord of any of its obligations under this Lease. Subject to Landlord's representations and warranties provided in this Section 2.3, by taking possession of the Premises, Tenant shall be deemed to have agreed that the Premises is in the condition required by this Lease and any alleged defects or deficiencies are waived.

2.4 Tenant's Work/Tenant Improvements. Initial improvements to the Premises other than Landlord's Work (defined in **Exhibit C** (Work Letter)), if any, are referred to as "**Tenant's Work**" and shall be governed by **Exhibit C**. References herein to "**Tenant Improvements**" means the combination of Landlord's Work, if any, and Tenant's Work. Other than Landlord's Work, Landlord shall have no obligation to perform any work or improvements in the Premises or Project in connection with Tenant's initial occupancy.

2.5 Rules and Regulations. Tenant shall comply with all reasonable rules and regulations non-discriminatorily established by Landlord from time to time for the Project. The current rules and regulations for the Project are attached as **Exhibit D**.

2.6 Delay in Delivery. If Landlord does not deliver possession of the Premises to Tenant on or prior to December 31, 2019 (the "**Outside Delivery Date**"), then Tenant may terminate this Lease upon the giving of written notice to Landlord at any time following the Outside Delivery Date and this Lease shall terminate and be of no further force or effect on the date of such notice and Landlord shall immediately return the Security Deposit and any pre-paid Rent to Tenant.

3. LEASE TERM

The term of this Lease (the "**Term**") shall commence on the "**Commencement Date**" specified in Section 1.4. The Term shall be for the number of months following the Rent Commencement Date set forth in Section 1.5. All provisions of this Lease, other than those relating to payment of Base Rent and Additional Rent under Section 5, shall be effective on the earlier of the Commencement Date or the date that Tenant, its agents, contractors or employees, is/are present in the Premises for construction, fixturing, move-in or similar purposes, subject to the deferral of the commencement of Base Rent set forth in Section 1.

4. BASE RENT

Commencing on the Rent Commencement Date (subject to the abatement of Base Rent provided for in Section 1.7), and continuing on the first day of each month thereafter, Tenant shall pay Landlord in lawful money of the United States the Base Rent stated in Section 1.7, in advance, without offset, counter claim, deduction or demand. The Base Rent shall be paid to the address specified in Section 1.17 or to such other address as may be specified in writing by Landlord. All charges payable by Tenant to Landlord pursuant to this Lease other than Base Rent are "**Additional Rent**". Unless this Lease provides otherwise, Tenant shall pay all Additional Rent then due with the next monthly installment of Base Rent. The term "**Rent**" means Base Rent and Additional Rent. Rent for any partial month shall be prorated and the Base Rent for the first full calendar month in which Base Rent is due shall be paid on execution of this Lease by Tenant. Landlord shall have all of the same remedies for Tenant's failure to pay Additional Rent as for failure to pay Base Rent.

5. ADDITIONAL RENT

5.1 Additional Rent for Common Expenses. Commencing on January 1, 2021, Tenant shall pay Landlord each year, Tenant's Share of: (a) CAM Expenses for that year in excess of the CAM Expenses for the Base Year; (b) Insurance Expenses for that year in excess of the Insurance Expenses for the Base Year; and (c) Real Property Taxes for that year in excess of the Real Property Taxes for the Base Year, each prorated for any partial year at the end of the Term. On or before December 1 of each year during the Term, beginning on December 1, 2020, Landlord shall give Tenant written notice of the estimated annual amounts due pursuant to the foregoing sentence and on the first day of each month Tenant shall pay Landlord 1/12th of the annual estimates. Landlord may revise its estimates during the year. Within 120 days after the end of each calendar year, Landlord will provide a statement showing Tenant's Share of the excess of CAM Expenses, Insurance Expenses, and Real Property Taxes for such year over the Base Year, the payments made during the year and any balances due or credits owing. Tenant shall pay any balances owing within 30 days after receipt of the statement, and any credits due Tenant shall be credited to Tenant's next monthly estimated payment or if the Lease has terminated or expired, it shall be refunded to Tenant. To the extent that particular expenses relate to one tenant or a group of tenants or it is otherwise equitable, Landlord may specially allocate those expenses and Tenant's Share of those expenses shall be correspondingly adjusted.

5.2 Common Expenses Definitions. The following terms shall have the following meanings:

"CAM Expenses" shall mean all costs incurred by Landlord in connection with the Project (excluding Real Property Taxes and Insurance Expenses) and including, without limitation, utilities, the work Landlord is obligated to perform under Section 7.2 below (except any costs billed directly to Tenant under Section 7.2), and all other repairs, operation, maintenance and replacements for the Project, management fees and any on-site management office, and including capital improvements, which under generally accepted accounting principles ("**GAAP**") are properly classified as capital expenditures and are (a) required by any Applicable Requirements which first become effective or enforced after the date of this Lease, (b) expenditures of a capital nature if such capital expenditures are reasonably intended or expected to result or do result in cost savings by virtue of improving the utility, efficiency or capacity of the Building, or (c) replacements or repairs to equipment and improvements currently existing at or on the Project ("**Permitted Existing Capital Repairs/Replacements**"), such allowed capital improvements under (a), (b) and (c) shall be amortized over the useful life of such improvements in accordance with GAAP, together with interest on the unamortized balance at 8%, but in no event more than the maximum rate permitted by law ("**Permitted Capital Expenditure Passthroughs**"). CAM Expenses shall not include: (i) debt service or ground rent; (ii) leasing costs including tenant improvements, tenant improvement allowances, leasing commissions, marketing costs, attorneys' fees and other costs and expenses incurred in connection with negotiations or disputes with present or prospective tenants or other occupants of the Project; (iii) costs of any services rendered to individual tenants for which a charge is collected or for which Tenant is directly charged and all utilities for other rentable portions of the Project which do not include the Premises; (iv) depreciation, amortization and interest payments, except as specifically permitted herein or except on materials, tools supplies and vendor-type equipment purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party where such depreciation, amortization and interest payments would otherwise have been included in the charge for such third party's services; (v) all costs that are reimbursed by the insurance carried by Landlord or another tenant of the Project or subject to award under any eminent domain proceeding; (vi) the wages and benefits of any employee who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project vis-à-vis time spent on matters unrelated to operating and managing the Project; provided, that in no event shall CAM Expenses for purposes of this Lease include wages and/or benefits attributable to personnel above the level of property manager; (vii) any cost or expense incurred by reason of the remediation or clean-up of any contamination of the Project, the Building, the Premises, or the soils or ground water underlying the Building or the Project, by Hazardous Materials (as defined in Section 6.4 of this Lease); (viii) any insurance deductibles which exceed in the aggregate $35,000 per occurrence; (ix) costs of correcting any violations of current Applicable Requirements with the Building or the Project that existed as of the date of this Lease; (x) advertising and promotional expenditures; (xi) the cost of any capital expenditure (as determined under GAAP) except for amortized Permitted Capital Expenditure Passthroughs; (xii) overhead costs and profit increment paid to subsidiaries or affiliates of Landlord for services on or for the Building or the Project, to the extent only that the cost of such services exceed competitive costs of such services were they not so rendered by a subsidiary or affiliate; (xiii) reserves for future CAM Expenses; (xiv) costs of repairs or replacements to the structural portions of the Building or Project; and (xv) any portion of a property management fee higher than the lower of (a) five and one quarter percent (5.25%) of the Common Expenses for the Project, and (b) the highest property management fee charged to any other tenant in the Project leasing equal or more square feet than Tenant.

"**Common Expenses**" shall mean CAM Expenses, Insurance Expenses, and Real Property Taxes. If the Project is part of a larger development, Landlord's share of the costs of the larger development shall be equitably included in the relevant categories of Common Expenses.

"Insurance Expenses" shall mean all costs incurred by Landlord for insurance for the Project.

"Real Property Taxes" shall mean all current and future taxes, governmental charges, fees, and assessments (including local (LID and MID) and special improvement districts) levied on the Project, or any improvements, fixtures and equipment and all other property of Landlord, real or personal, used in the operation of the Project; any taxes in addition to or in lieu of, in whole or in part, such taxes; any tax upon leasing or rents of the Project, including any sales or use taxes; any other governmental charge such as school fees, trip or transport fees, transportation management programs and payments for light rail, monorail, streetcar or other transit facilities or fees assessed by air quality management districts or by any governmental agency regulating air pollution or pertaining to environmental facilities; and all costs and expenses incurred by Landlord in connection with the attempt to reduce any of the foregoing, whether by negotiation or contest but excluding any taxes assessed directly against Tenant, which shall be paid by Tenant. If the present method of taxation changes so that in lieu of or in addition to the whole or any part of any Real Property Taxes, there is levied on Landlord a tax directly on rents or a franchise tax, assessment, or charge based, in whole or in part, upon such rents or revenues (including any business and occupation tax imposed on Landlord, the Building or the Property), then all such taxes, assessments, or charges, or the part thereof so based, shall be deemed to be included within the term "Real Property Taxes" for purposes hereof. Notwithstanding anything to the contrary above or elsewhere in this Lease, Real Property Taxes shall not include any state or federal income tax, transfer tax, franchise tax, inheritance tax, estate tax, or other similar tax, and shall not include any late payment penalties if Tenant has paid the amounts due under Section 5.1 as and when due.

5.3. Occupancy Adjustment. If the Project is not 100% occupied by tenants during all or any portion of a year, Landlord may make an appropriate adjustment to those Common Expenses which vary by occupancy, employing sound accounting and management principles, to the amount that would have been incurred if the rentable area of the Project had been fully occupied thus avoiding unequitable fluctuations in Tenant's payment for variable Common Expenses (such as janitorial, trash removal, and utilities).

5.4 Tenant's Audit Right. Provided Tenant is not in default beyond any applicable notice and cure periods provided herein, Tenant shall have the right to audit the current year's expense statement issued by or on behalf of Landlord by written notice given to Landlord within 60 days after receipt of that statement. Such audit shall be conducted in the offices of Landlord's property manager at the cost of Tenant. Tenant shall keep all of the information disclosed in the course of such audit confidential, and shall require all of its consultants to agree in writing directed to Landlord to keep all such information confidential. Tenant agrees that such audits shall not be permitted to be conducted on a contingency fee basis. If such audit reveals that Landlord has over-charged Tenant, then within thirty (30) days after the results of such audit are made available to Landlord, Landlord shall either credit such amount against the CAM Expenses next due from Tenant or reimburse to Tenant the amount of such over-charge. If the audit reveals that the Tenant was under-charged, then within thirty (30) days after the results of such audit are made available to Tenant, Tenant shall reimburse to Landlord the amount of such under-charge. Tenant agrees to pay the cost of such audit unless it is subsequently determined that Landlord's original statement which was the subject of such audit was in error to Tenant's disadvantage by more than five (5%), in which case Landlord shall reimburse Tenant for the reasonable cost of such audit. To the extent that Tenant elects not to exercise such audit rights, Tenant shall be deemed to have approved the current year's expense statement and any disagreements or claims by Tenant in connection therewith shall be deemed forever waived; provided, however, that Tenant shall have a one-time right to audit the calculation of CAM Expenses for the Base Year during the initial 87 month Term.

5.5 Utilities. As of the Commencement Date and throughout the Term, Tenant shall pay, directly to the appropriate supplier, the cost of any separately metered utilities, including telecommunications. Any utilities which are not separately metered shall, at Landlord's election, either be (a) equitably allocated between the users by Landlord and paid within 30 days after receipt of Landlord's invoice, or (b) included in Common Expenses. In order to assist Landlord in monitoring the energy efficiency of the Building, on Landlord's request, Tenant shall timely deliver to Landlord a copy of Tenant's utility bills for the Premises and such other information related to Tenant's use of utilities as may reasonably be requested.

5.6 Limit on Permitted Existing Capital Repairs/Replacements. Notwithstanding anything to the contrary in this Section 5, Tenant's Share for the cost of any Permitted Existing Capital Repair/Replacement shall be capped at $125,000 for each Permitted Existing Capital Repair/Replacement made by Landlord, prior to the inclusion of any interest as such interest may be included in the amortization of such limited Permitted Existing Capital Repair/Replacement cost in accordance with Section 5.2 above.

5.7 Intention. This Lease and the Base Rent are intended to be fully net of expenses incurred in by Landlord in connection with the Project in excess of the Base Year Common Expenses except to the extent that such expenses are expressly excluded hereunder.

6. USE; TENANT'S OPERATIONS

6.1 Permitted Uses. Tenant may use the Premises only for the Permitted Uses set forth in Section 1. Tenant shall not cause or permit the Premises to be used in any way which (a) violates any applicable governmental regulations, (b) interferes with the rights of other tenants or Landlord, (c) constitutes a nuisance or waste, or (d) adversely impacts insurance rates for the Project. Tenant shall not conduct or permit any auctions or sheriff's sales at the Premises or within the Premises or permit any portion of the Premises to be used for a "call center," any other telemarketing use, any credit processing use, or other use that involves volumes of occupants in excess of those for a typical office use.

6.2 Signage. Landlord, at Landlord's expense, will provide Building standard signage with Tenant's name and suite number on or adjacent to the entry door to the Premises and standard signage on any Building directories. Tenant shall not place any other signs on the Premises or Project or within the Premises and visible from the exterior of the Premises without Landlord's prior written consent. If Landlord has previously approved any signage (except as described in the first sentence of this Section 6.2), it must be shown on a Rider or Exhibit to this Lease, initialed by Landlord.

6.3 Building Penetrations. Tenant shall not make any penetrations in any exposed brick wall or structural timbers, including without limitation, columns, beams and joists, in the Premises or Building. Tenant shall not make any other penetrations in the Building (roof, walls, foundations, etc.) without Landlord's prior written consent. If Tenant is permitted to make any penetrations in the Building, the consent shall be subject to Landlord's conditions, including (a) Landlord's approval of plans and specifications for the penetration and the contractor to perform it, and (b) arrangements to insure that the penetration will not adversely affect any warranty. If Landlord grants such consent, Tenant shall be obligated to (1) reimburse Landlord for all costs incurred in connection with the penetration, including any fees payable to a roof warranty obligor and any expenses related to later problems arising due to the penetration, and (2) to remove the equipment before the end of the Lease and completely seal the penetration to Landlord's satisfaction and in compliance with any applicable warranty. Further, Tenant shall be responsible for any costs incurred by Landlord to correct later problems arising in connection with Tenant's penetration. In addition, depending on the seriousness of the penetration, Landlord may require Tenant to post a deposit to guarantee Tenant's performance. If Tenant penetrates the building without Landlord's written consent or violates the terms of the consent, Tenant shall pay Landlord a daily fee of $250 from the date of the penetration until it is completely sealed to Landlord's satisfaction. If any repairs or maintenance by Landlord affects the area, Tenant shall be responsible at its expense for removing and re-installing its equipment/penetration and accommodating Landlord's work schedule, all at Tenant's expense.

6.4 Hazardous Materials. Tenant shall not cause or permit any Hazardous Material (defined below) to be generated, produced, brought upon, used, stored, treated or disposed of in or about the Premises (other than the use and storage of standard de minimus amounts of office and cleaning supplies of the types and qualities typically stored and used by similar businesses and only to the extent used, stored and disposed of in compliance with all applicable governmental requirements and manufacturer recommendations) without the specific prior written consent of Landlord and subject to the provisions of this Section. Landlord shall take into account such factors as Landlord considers relevant in determining whether to grant or withhold consent to Tenant's proposed Hazardous Material. No installation or use of storage tanks is permitted on the Premises. Tenant shall immediately notify Landlord of any hazardous contamination of the Premises. Landlord may elect to test the Premises for the presence of Hazardous Materials at any time during the Term and after Tenant vacates the Premises. If any such testing indicates the presence of Hazardous Materials, and if Tenant brought Hazardous Materials of that type into the Premises, Tenant shall immediately reimburse Landlord for all costs incurred in the testing and the clean-up. As used in this Lease, the term "**Hazardous Material**" means any flammable items and any substances included in the definition of "hazardous substances/wastes/materials" or "toxic substances" now or subsequently regulated under any applicable federal, state or local regulations. Tenant shall indemnify, defend and save Landlord, its agents and mortgagees harmless from all costs, claims, damages and penalties (civil and criminal) arising with respect to Tenant's or its agents' or employees' use, disposal, transportation, generation and/or sale of Hazardous Materials, in or about the Project and any Hazardous Materials brought into the Premises during the Term by persons other than Landlord or its agents.

6.5 Telecommunications Services.

6.5.1 Tenant. Tenant, at its expense, shall arrange for all telecommunications services desired by Tenant. Landlord will have no responsibility for the maintenance of Tenant's data/telecommunications equipment and/or wiring ("**Telecom Facilities**"), or for any telecommunications infrastructure to which it is connected. Tenant shall reimburse Landlord for all costs solely attributable to Tenant's telecom services including additional risers, conduit, providing cable pair assignments; computer equipment/software for line connections; and third party fees.

6.5.2 Telecom Problems. Landlord will have no responsibility for any claims, costs or damages ("**Telecom Claims**") in connection with, and Landlord does not warrant that Tenant's use of its Telecom Facilities will be free from, the following (collectively, "**Line Problems**"): (a) any shortages, failures, variations, interruption; (b) any failure of any Telecom Facilities to satisfy Tenant's requirements; or (c) any eavesdropping or wire-tapping. Line Problems shall not be considered an actual or constructive eviction of Tenant or relieve Tenant from performance of its obligations under this Lease.

6.5.3 EMF. If Tenant's Telecom Facilities create an electromagnetic field exceeding radiation limits permitted by FCC regulations, as now or hereafter amended ("**FCC Regs**"), Landlord may require Tenant to reduce radiation to permitted levels. Tenant shall indemnify and hold Landlord harmless from all liability, costs and damages arising out of Tenant's electromagnetic emissions. If Tenant's Telecom Facilities, together with other Telecom Facilities located in the Project, exceed the radiation limits permitted by FCC Regs, Tenant will pay its share, as reasonably determined by Landlord, of all costs associated with safety measures taken by Landlord.

6.5.4 Alternate Provider. If Tenant wishes to utilize the services of a telecommunications provider whose equipment is not servicing the Building (an "**Alternate Provider**"), Tenant shall notify Landlord of the name of the Alternate Provider, the type of service to be provided, the equipment Alternate Provider wishes to install in the Building and any other information that Landlord reasonably requests. No Alternate Provider may install any equipment in the Building until Landlord has given its written consent, not to be unreasonably withheld. Landlord may require that the following conditions be met: (a) the Alternate Provider entering into a written agreement reasonably satisfactory to Landlord with all terms and conditions of the Alternate Provider's access to the Project; (b) Landlord will incur no expense, including for installation, maintenance and service; (c) Landlord's right to approve the location, plans and installation of all equipment and wiring; (d) before commencing any work in or about the Project, the Alternate Provider (1) supplies Landlord with indemnities, evidence of insurance, financial statements and other information Landlord deems reasonably necessary; and (2) agrees to abide by rules Landlord deems reasonably necessary to protect the Project and the interests of the other tenants; (e) Landlord has reasonably determined that there is sufficient roof, riser, conduit and/or equipment space for the Alternate Provider's equipment and cabling, considering the current and probable future needs of other tenants and prospective tenants; (f) the Alternate Provider is licensed, qualified to do business in the state where the Premises is located and has sufficient experience and financial strength to perform its obligations; and (g) the Alternate Provider agrees to compensate Landlord in the amount reasonably determined by Landlord for the space used in the Building or Project and all costs that Landlord may incur in Alternate Provider's equipment within the Building or Project. The provisions of this Section may be enforced solely by Tenant and Landlord. No telephone or telecommunications provider shall be deemed a third party beneficiary of this Section 6.5.

6.6 Compliance/Permits. Tenant, at its own expense, shall obtain and pay for all permits related to its business and/or its specific use of the Premises. At its expense, Tenant shall comply with all laws, orders, ordinances, regulations of federal, state, City of Seattle, or other governmental authorities and with any direction made pursuant to law of any public officer with respect to the Premises or the use thereof ("**Applicable Requirements**"), including any obligation to make alterations in the Premises in connection with Tenant's use or occupancy or in connection with Tenant's Work. Tenant will cooperate with Landlord to provide any information required for compliance with Applicable Requirements. Notwithstanding anything to the contrary in this Section 6 or elsewhere in this Lease, Tenant shall not be responsible for (a) any non-compliance of the Premises with Applicable Requirements existing on the Commencement Date of this Lease, (b) making any alterations to the Premises in order to comply with Applicable Requirements except to the extent such alterations are required due to Tenant's particular use of the Premises or alterations made by Tenant, including Tenant's Work, or (c) any remediation of Hazardous Materials except to the extent required pursuant to Section 6.4 of this Lease.

7. MAINTENANCE AND REPAIRS/LANDLORD SERVICES

7.1 Tenant's Repairs. Except as provided in Section 7.2 (Landlord's Obligations), Section 12 (Damage or Destruction), and Section 13 (Condemnation), Tenant, at its cost, shall keep and maintain all portions of the Premises in good order, condition and repair, including, interior doors and windows, doors allowing access to the Premises from common areas, floors, lighting (including bulbs), and all fixtures and equipment in the Premises. Tenant's repair and maintenance responsibility shall include replacement of equipment and components which are Tenant's responsibility under this Section 7.1 and can no longer be brought into good operating condition with repairs. If any part of the Project is damaged by any act or omission of Tenant, its agents, employees or invitees, Tenant shall pay the cost of repairing or replacing the damage. Tenant shall maintain the portions of the Premises which Tenant is obligated to maintain in an attractive, first-class and fully operative condition.

7.2 Landlord's Obligations. Except as provided in Section 12 (Damage or Destruction), and Section 13 (Condemnation), Landlord shall be responsible for the maintenance and repairs to the portions of the Project which are not Tenant's responsibility, including the repair, maintenance and replacement of the Building exterior windows, the roof, the foundation and other structural portions of the Building, Building Common electrical, plumbing and other mechanical systems which are not exclusive to any particular tenant, the rooftop HVAC infrastructure, HVAC and plumbing systems serving the Premises, and the common areas and exterior of the Project. Landlord, in its sole discretion, may elect to either include the cost of maintenance and repair of the plumbing and HVAC which exclusively serves the Premises in Common Expenses, in which case they shall be payable as provided in Section 5, or bill such costs directly to Tenant, in which case they shall be payable within 30 days of Tenant's receipt of Landlord's invoice. If any work is necessitated due to any act or omission of Tenant, its agents or employees, Landlord may require Tenant to pay the cost of that work within 30 days of receipt by Tenant of the invoice. Tenant waives the benefit of any present or future law which might give Tenant the right to repair the Premises at Landlord's expense or to terminate the Lease due to the condition of the Premises.

7.3 Landlord's Right to Cure. Whether Tenant has satisfied its repair, maintenance and replacement obligations shall be determined by Landlord using its commercially reasonable judgment. If Tenant fails to maintain, repair or replace the Premises as required by this Section 7, Landlord may, upon 10 days' prior notice to Tenant (except no notice is required in an emergency), enter the Premises and perform Tenant's obligations on behalf of Tenant and Tenant shall reimburse Landlord for all reasonable costs actually incurred by Landlord in so performing immediately upon demand.

7.4 Basic Services. Landlord shall provide toilet room supplies, window washing at reasonable intervals, and customary Building janitorial service. Janitorial service shall be provided 5 days per week excluding service for legal holidays. Tenant shall reimburse Landlord for the cost of any janitorial or other services provided to Tenant which are in excess of those ordinarily provided.

During Normal Building Hours, Landlord shall furnish heating and air conditioning required in Landlord's judgment for the comfortable use and occupancy of the Premises. If requested by Tenant, Landlord shall furnish heating and air conditioning at times other than Normal Building Hours at Landlord's then standard hourly rate for after-hours services, which will be adjusted periodically, payable upon receipt of billings therefore. "**Normal Building Hours**" shall mean from 8:00 a.m. to 6:00 p.m. on weekdays, excluding legal holidays. The current charge for after-hours HVAC is $45.00 per hour per air handling unit activated and is subject to adjustment by Landlord; however, Landlord agrees not to charge Tenant for up to three hours of Saturday "after-hours HVAC" between 9:00 a.m. and noon.

Electricity shall be provided by the applicable provider for normal office use, including lighting and operation of customary office machines, and water, both in quantities usually furnished or supplied by Landlord to tenants leasing space in the Building. The mechanical system is designed to accommodate normal and customary heating loads. Before installing lights and equipment in the Premises, which in the aggregate exceed the design of the systems or require more than 120 volts single phase ("**Excess Load Equipment**"), Tenant shall obtain the written permission of Landlord. Landlord may refuse to grant such permission unless Tenant agrees to pay in advance Landlord's costs of installing metering and any supplementary air conditioning or electrical systems required by such equipment or lights. In addition, Tenant shall pay Landlord (except to the extent the costs are billed directly to Tenant through separate metering), Landlord's estimate of the cost of furnishing electricity for the Excess Load Equipment and Landlord's estimate of the cost of operating and maintaining supplementary air conditioning related to Tenant's use of such Excess Load Equipment. If Tenant installs any Excess Load Equipment, Landlord may install and operate, at Tenant's cost, a monitoring/metering system to measure the added demands on electricity or HVAC systems. Tenant shall comply with Landlord's reasonable instruction for the use of drapes, blinds and thermostats.

Landlord shall provide such security for the Project as it deems appropriate. During other than Normal Building Hours, Landlord may restrict access to the Building in accordance with the Building's security system (with access via key or card key).

7.5 Additional Services. If Tenant requests any of the aforementioned services (or items) in amounts in excess of Building standard (other than HVAC service), Tenant shall pay to Landlord the fees charged for such additional services (or items), upon receipt of billings therefore.

7.6 Interruption of Service. Landlord does not warrant that any utilities or services will be free from interruption including by reason of accident, repairs, alterations, computer programming weaknesses or other causes. Landlord agrees to use commercially reasonable efforts to restore utilities and services promptly following any such interruption. No utility interruption shall be deemed an eviction or disturbance of Tenant, or render Landlord liable to Tenant for damages. If an interruption of services or utilities occurs which materially interferes with Tenant's normal operations at the Premises and is caused by the negligence or misconduct of Landlord, the Base Rent and Tenant's Share of Common Expenses shall abate for the period of the interruption.

8. ALTERATIONS

8.1 Alterations Procedures. Following any work performed pursuant to **Exhibit C**, except as otherwise provided below in this Section 8.1, Tenant shall not make any alterations to the Premises without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed (except with respect to any Prohibited Alterations which are subject to Landlord's sole discretion as provided below); provided that no consent is needed from Landlord for non-structural alterations, improvements, changes or additions by Tenant (excluding Prohibited Alterations as defined below) not costing Tenant in excess of $5,000. Under no circumstances may Tenant, without the prior written consent of Landlord in Landlord's sole discretion (a) make any alterations to the structural elements of the Building, the roof, life/safety systems, HVAC system (except for changes solely within the Premises), any security system for which Landlord is responsible, or which effect any other Building systems, including electrical, mechanical or plumbing, or (b) paint or make any penetrations into any exposed brick surface or any structural timbers (including without limitation, columns, beams, and joists) (collectively, the "**Prohibited Alterations**"). All work performed by or at the request of Tenant shall be performed by contractors and subcontractors reasonably approved in writing by Landlord and shall be required to obtain the following insurance: (i) Workman's Compensation and Occupational Disease Insurance in accordance with the laws of the Washington State in which the Building is located; and (ii) Commercial General Liability Insurance with limits for bodily injury and property damage of not less than One Million Dollars ($1,000,000) for any one occurrence and Two Million Dollars ($2,000,000) in the aggregate. Promptly after the completion of the alterations or improvements, Tenant, at its expense, shall deliver to Landlord an accurate as-built drawing in CAD, Revit, or other electronic format acceptable to Landlord (to the extent such drawings were produced), as well as a hard copy, showing such alterations or improvements in the Premises. Landlord's approval of any plans, specifications or work drawings shall create no responsibility or liability on the part of Landlord for their completeness, design sufficiency or compliance with any laws, rules and regulations of governmental agencies or authorities.

8.2 Mechanic's Lien. Tenant shall have no express or implied authority to place any lien or encumbrance upon, Landlord's interest in the Premises or to burden the Rent for any claim in favor of any person dealing with Tenant, including those who furnish materials or perform labor for any construction or repairs, and each such claim shall attach, if at all, only to Tenant's leasehold interest. Tenant will cause to be paid when due all sums owed for any labor performed or materials furnished in connection with any work performed on the Premises for Tenant. If any lien is filed against the Project in connection with Tenant's activities, Tenant shall, within 15 days after notice of the filing thereof, either (a) pay the amount of the lien and cause the lien to be released of record, or (b) diligently contest such lien and deliver to Landlord a bond or other security satisfactory to Landlord indemnifying, protecting, defending, holding harmless Landlord and the Project against all costs and liabilities resulting from such lien and the foreclosure or attempted foreclosure thereof. If Tenant fails to timely take either such action, then Landlord may pay the lien claim, and any amounts so paid, including expenses and interest, shall be paid by Tenant to Landlord within 10 days after Landlord has invoiced Tenant therefor.

8.3 Condition upon Surrender. Upon the termination of the Lease, Tenant shall remove all its personal property and surrender the Premises to Landlord, broom clean and in the same condition as received except for ordinary wear and tear which Tenant was not otherwise obligated to remedy under this Lease, including with all electrical, plumbing and other mechanical systems in good operating condition and shall deliver all keys to the Building and Premises to Landlord. In addition, if Tenant requests that Landlord inform Tenant whether removal will be required at the expiration of the Term or upon the earlier termination of this Lease, Landlord agrees to notify Tenant at the time of approving any Tenant's Work or alteration made by Tenant in accordance with the terms of the Lease, whether or not Landlord will require Tenant to remove such Tenant's Work or other alteration and to restore the Premises to its prior condition, at Tenant's expense. All alterations which Landlord does not require Tenant to remove as provided above shall become Landlord's property and shall be surrendered to Landlord on termination of the Lease, except that Tenant may remove any of Tenant's machinery or equipment which can be removed without material damage to the Premises. Tenant shall not remove any fixtures or equipment considered a part of the real property without Landlord's prior written consent or unless required by Landlord. Such items shall include: any wiring (but excluding data/telecommunications cabling); power panels, lighting or lighting fixtures; wall coverings; drapes, blinds or other window coverings; floor coverings. Notwithstanding anything to the contrary herein, Tenant shall remove data/telecommunications cabling installed by or for Tenant (a) in accordance with the requirements of the National Electric Code and all other applicable codes and ordinances, and (b) as may be required by Landlord. Tenant shall reimburse Landlord for the cost of any repairs required in connection with damage to the Premises or the Project caused by the removal of any such Tenant's Work, cabling, machinery, alterations, equipment, or other property of Tenant. All property required by Landlord to be removed from the Premises at the end of the Term and which remains after Tenant vacates, shall be deemed abandoned and may, at the election of Landlord, be retained as Landlord's property, or, at Tenant's expense, may be removed from the Premises and either disposed of or stored. Tenant waives any claim against Landlord for damage to or disposal of any personal property left in the Premises.

9. SECURITY DEPOSIT

Upon execution of this Lease, Tenant shall deposit with Landlord the Security Deposit specified in Section 1. Landlord may apply all or part of the Security Deposit to any unpaid Rent or to cure any other defaults of Tenant. If Landlord uses any part of the Security Deposit, Tenant shall restore the Security Deposit to its original amount within 10 days after Landlord's written request. Tenant's failure to do so shall be a default under this Lease and the overdue amount shall accrue interest as any delinquent payment. If twice within any 12 month period, late charges are assessed against Tenant by Landlord, Landlord may, by written notice to Tenant, require Tenant to pay Landlord an amount equal to two months Base Rent as an increase in the Security Deposit, due within 5 days after Tenant's receipt of the notice. If Landlord transfers its interest in the Premises, Landlord shall transfer the Security Deposit to its successor in interest, whereupon Landlord shall be automatically released from any liability for the return of the Security Deposit. If, at the end of the Term, Tenant has fully complied with all obligations under this Lease, then the remaining Security Deposit shall be returned to Tenant after Landlord has verified that Tenant has fully vacated the Premises, removed all of its property and surrendered the Premises in the condition required; provided that Landlord may hold back a reasonable portion of the Security Deposit until final determination of Tenant's Share of Common Expenses due hereunder, which shall be made no later than 6 months following the expiration of the Term or earlier termination of the Lease, whereupon any final adjustment shall be made and any remaining Security Deposit shall be returned to Tenant. Landlord's obligations with respect to the Security Deposit are those of a debtor and not of a trustee, and Landlord can commingle the Security Deposit with Landlord's general funds and no interest shall be paid to Tenant on the Security Deposit.

10. INSURANCE/INDEMNITY

10.1 Insurance. At its expense, Tenant shall obtain and maintain at all times during the term of this Lease: (a) commercial general liability insurance with limits of at least $2 million per occurrence, $2 million general aggregate, and $1 million products completed operations aggregate, or such higher amounts as Landlord may require at the commencement of any Option Term to the extent such amounts are similar to the amounts charged by landlords of similar premises in comparable buildings in the area, containing an aggregate per location endorsement; (b) special form insurance for Tenant's personal property (i.e., furniture, fixtures and equipment) to its full replacement value and business interruption insurance in an amount sufficient to cover costs, expenses, Rent due hereunder, damages and lost income should the Premises not be fully usable for a period of up to 12 months; and (c) other coverages Landlord reasonably requires. The policies shall be written by insurers with an A.M. Best rating of A-:VIII or better, reasonably acceptable to Landlord, and shall be on forms reasonably acceptable to Landlord, shall not contain deductibles exceeding $5,000 without Landlord's prior written approval and shall contain or permit waivers of subrogation with regard to Landlord and the other additional insureds. The liability policy shall be on an occurrence form and shall include the entities listed in Section 1 as additional insureds on an unmodified ISO endorsement CG 20 11 01 96, or equivalent form. No language excluding coverage for the acts or omissions of the additional insured(s) shall be contained in the endorsement. The specifications herein of minimum limits does not limit the limits of coverage to be available to the Landlord Parties as additional insureds. If Tenant's insurance has limits greater than the limits set forth in this Section, the amount of coverage available to Landlord Parties shall be increased to the limits of Tenant's insurance, including limits under any umbrella or excess policies. Tenant's insurance coverage shall not contain any non-standard, special or unusual exclusions or restrictive endorsements without Landlord's written approval. The personal injury contractual liability exclusion shall be deleted. Tenant will agree to provide at least 30 days prior written notice to Landlord if policies are cancelled. Tenant shall furnish Landlord with certificates of insurance evidencing the above coverages upon Landlord's written request at any time during the Term as well as a copy of the additional insured endorsement(s). As part of Common Expenses, Landlord shall maintain (a) property insurance on the Project in at least the replacement value of the improvements on the Project; (b) commercial general liability insurance insuring Landlord; (c) rental loss insurance; and (d) such other insurance as Landlord elects to carry. All insurance coverage hereunder required to be provided by Tenant shall be primary to and shall seek no contribution for any insurance available to the Landlord or any agent of Landlord, with Landlord's (or Landlord agent's) insurance being excess, secondary and non-contributing. Tenant's commercial general liability coverage shall be endorsed to provide such primary and non-contributory liability. Landlord shall not obtain insurance for Tenant's furniture, fixtures or equipment or Tenant's other personal property. Common Expenses shall include the deductibles on Landlord's coverage. Tenant shall not do or permit anything to be done which invalidates Landlord's insurance policies and if Landlord's premiums are increased due to Tenant, any increase shall be paid by Tenant. Each party shall obtain a waiver of subrogation from its respective insurer either via endorsement or by virtue of a provision in the applicable insurance policy.

10.2 Indemnity. Subject to Landlord's release in Section 10.3.2, Tenant shall indemnify and defend (using legal counsel acceptable to Landlord) all Landlord Parties (defined below) from any claims, costs (including attorneys' fees and other litigation costs) or damages arising in connection with (a) the occupancy or use of the Premises by Tenant Parties (defined below) and customers, including any work undertaken or contracted for by Tenant; (b) Tenant's breach of this Lease, (c) any negligent or wrongful act or omission of Tenant Parties or their customers; (d) any accident, injury, occurrence or damage in or about the Premises except to the extent caused by other tenants of the Project; and (e) any claim against Landlord by any employee or former employee of Tenant; provided, however, that such indemnity obligations shall not apply to the extent such claims, costs or damages arise from the negligence or willful misconduct of Landlord, Landlord Parties or any agents or employees of Landlord or Landlord Parties. This indemnity is not contingent upon insurance coverage, is not limited to the amount of any insurance proceeds, and operates independently of the insurance provisions of this Lease. "**Landlord Parties**" shall mean Landlord, any mortgagees, the property manager, and their respective owners and affiliates, subsidiaries, successors and assigns. "**Tenant Parties**" means Tenant, Tenant's owners, Tenant's affiliates, and any directors, officers, employees, sublessees, licensees, invitees, agents, contractors and successors and/or assigns of such persons or entities.

10.2.1 Insurance/Indemnity: Tenant agrees that the provisions of any employee injury insurance act, including Title 51 of the Revised Code of Washington, or any other employee benefit act shall not operate to release or immunize Tenant from its obligations under this Section 10. Notwithstanding any other provisions of this Lease to the contrary, in compliance with RCW 4.24.115 as in effect on the date of this Lease, all provisions of this Lease pursuant to which a party (the "**Indemnitor**") agrees to indemnify the other (the "**Indemnitee**") against liability for damages arising out of bodily injury to Persons or damage to property relative to the construction, alteration, repair, addition to, subtraction from, improvement to, or maintenance of, any building, road, or other structure, project, development, or improvement attached to real estate, including the Premises, (i) shall not apply to damages caused by or resulting from the sole negligence of the Indemnitee, its agents or employees, and (ii) to the extent caused by or resulting from the concurrent negligence of (a) the Indemnitee or the Indemnitee's agents or employees, and (b) the Indemnitor or the Indemnitor's agents or employees, shall apply only to the extent of the Indemnitor's negligence.

10.3 Waivers.

10.3.1 Tenant Waiver. Tenant hereby releases, waives and discharges the Landlord Parties from any and all claims Tenant might otherwise now or hereafter possess associated with, any loss covered by insurance (or which would have been covered by the insurance Tenant is required to carry hereunder), including the deductible portion thereof, regardless of cause.

10.3.2 Landlord's Waiver. Landlord hereby releases, waives and discharges the Tenant Parties from any and all claims Landlord might otherwise now or hereafter possess associated with any loss covered by Landlord's insurance (or which would have been covered by the insurance Landlord is required to carry hereunder), but excluding the deductible portion thereof, regardless of cause.

10.4 Survival. The provisions of this Section 10 shall survive expiration or termination of this Lease.

11. ASSIGNMENT AND SUBLETTING

11.1 Assignment or Sublease. Tenant shall not assign this Lease or sublet any part of the Premises (each, a "**Transfer**" and any assignee or sublessee, a "**Transferee**") without Landlord's prior written consent which shall not be unreasonably withheld, conditioned or delayed. To assist Landlord in determining whether to consent to a Transfer, Tenant shall submit the following to Landlord, as well as any other information reasonably requested by Landlord: (i) the name and jurisdiction of the Transferee; (ii) the proposed use of the Premises; (iii) the terms of the proposed Transfer; (iv) current financial statements and the most recent filed federal income tax return of the proposed Transferee; and (v) the proposed Transfer documents. No Transfer shall affect the liability of Tenant under this Lease and Tenant and any Transferee shall be liable to Landlord for performance of Tenant's obligations under this Lease. Consent to any Transfer shall not operate as a waiver of the necessity of a consent to any subsequent Transfer. Landlord shall be acting reasonably in denying consent to a Transfer if Landlord determines (a) the use and occupancy of the Premises by the proposed Transferee would degrade the operation and maintenance of a first-class office building; (b) the proposed Transfer will conflict with any other Building lease; (c) intentionally omitted; (d) the proposed Transferee is an existing tenant of the Building actively or in the prior three months engaged in negotiations with Landlord to lease additional or relocation space in the Building; (e) the use and occupancy of the Premises by the proposed Transferee will unreasonably increase the traffic to the Building, or occupancy levels within the Building beyond Tenant's maximum density allowed under this Lease or a typical office tenant, whichever is greater; or (f) the use and occupancy of the Premises by the proposed Transferee may increase the risk of environmental contamination of the Project due to Hazardous Material to be brought upon the Project.

11.2 Entity Ownership. The cumulative transfer of an aggregate of 50% or more of the ownership interests in a Tenant entity, including by creation or issuance of new ownership interests (except as the result of transfers by gift or inheritance and except for transfers of interests in publicly traded entities) shall be deemed a Transfer of this Lease.

11.3 Assignee Obligation. Any assignee will be required to assume all obligations of Tenant and shall be jointly and severally liable with Tenant for the performance of all of Tenant's obligations under this Lease. Any sublessee will be required to assume all obligations of Tenant to the extent they relate to the subleased premises. Tenant shall provide Landlord with copies of all instruments of assignment, sublease or assumption. If the Transferee defaults, Landlord may, without affecting any other rights of Landlord, proceed against Tenant or any Transferee or any other person liable for Tenant's obligations hereunder. Tenant shall provide the notice address for any subtenant or assignee to Landlord prior to the effective date of the Transfer and if it is not provided, the applicable notice address shall be deemed to be the Premises.

11.4 Fees. Tenant shall reimburse Landlord for any actual and reasonable out-of-pocket costs incurred by Landlord in connection with any request for consent to a Transfer not to exceed $1,500. In addition, any request for consent to a Transfer shall be accompanied by payment of a non-refundable fee of $1,000 to compensate Landlord for the administrative burden of processing the request.

11.5 Assignment/Subletting Income. Tenant shall immediately pay to Landlord fifty percent (50%) of any amounts payable by an assignee to Tenant (except in connection with a Permitted Transfer) excluding payments from or on behalf of the assignee for Tenant's assets, fixtures, inventory, accounts, goodwill, equipment, furniture, leasehold improvements, and general intangibles), which exceed the Rent payable by Tenant hereunder, whether in the form of assignment fees or increased Base Rent or otherwise; provided that Tenant shall be permitted to deduct amortization spread over the remaining Term of all transaction costs with respect to such assignment (e.g., broker fees, legal fees and costs, demising costs, advertising, vacancy costs while marketing space, and inducements paid or promised to assignee). Tenant shall immediately pay to Landlord fifty percent (50%) of any amounts payable by a sublessee which exceed, on a per square foot basis, the Rent due from Tenant hereunder; provided that Tenant shall be permitted to deduct amortization of the commission paid by Tenant for the sublease, amortized over the sublease term.

11.6 Permitted Transfers. Notwithstanding anything to the contrary contained in this Lease, Tenant, without Landlord's prior written consent, may sublet the Premises or assign this Lease to an acquirer of substantially all of Tenant's assets or stock. Any change in control as a result of a sale or transfer of Tenant's capital stock on a public stock exchange or occurring in connection with a bona fide equity financing shall not be deemed an assignment, subletting, or any other transfer of the Lease or the Premises. All of the above transactions shall collectively shall be referred to as "**Permitted Transfers**", and any person to whom any Permitted Transfer is made hereinafter sometimes shall be referred to as a "**Permitted Transferee**". Within 30 days after the Transfer is effective, Tenant must give notice of the effective date to Landlord. Further, if the Transfer is an assignment, Tenant must provide an acknowledgement by any assignee of its assumption of the Tenant's obligations under this Lease. If the Transfer is a sublease, Tenant must provide an acknowledgement by the subtenant that it waives all claims against Landlord, it agrees to abide by the terms of this Lease including the rules and regulations, and any other terms reasonably requested by Landlord. Tenant shall also provide any evidence reasonably requested by Landlord to prove the relationship between Tenant and the Permitted Transferee subject to any confidentiality agreement between Tenant and the Permitted Transferee.

12. DAMAGE OR DESTRUCTION

12.1 Notice of Damage. Tenant shall notify Landlord in writing immediately upon the occurrence of any casualty damage (fire, flood, windstorm, or similar) to the Premises. Subject to Sections 12.2 and 12.3, if Landlord's insurance proceeds available to Landlord are sufficient to pay for the necessary repairs, this Lease shall remain in effect and Landlord shall repair the casualty damage to the Building as soon as reasonably practicable, and Tenant shall repair any damage to Tenant's fixtures and equipment or Tenant's other property including any alterations not covered by Landlord's insurance.

12.2 Decision. If (i) the insurance proceeds received by Landlord are not sufficient to pay the entire cost of repair, or if the cause of the damage is not covered by the insurance; (ii) if Landlord reasonably determines that the damage to the Project is significant, or (iii) if the Premises or the Project cannot be fully restored to its prior condition under land use, zoning, or building codes in force at the time a permit is sought for repair or reconstruction, then Landlord may elect either to (1) repair the damage to the Building and the tenant improvements as soon as reasonably practicable, in which case this Lease shall remain in full force and effect, or (2) terminate this Lease provided that Landlord terminates the leases of all similarly situated tenants in the Project. Landlord shall notify Tenant of Landlord's decision and its reasonable estimate of the required duration of the repairs ("**Casualty Notice**") within sixty (60) days after notice of the occurrence of the damage. If Landlord elects to repair the damage, Tenant shall pay Tenant's Share of the deductible under Landlord's insurance policy as part of CAM Expenses and subject to the limitations set forth in Section 5.2 above, and, if the damage was due to an act or omission of Tenant or Tenant's employees, agents, contractors or invitees, Tenant shall also pay the balance of the deductible as well as the difference between the actual cost of repair and any insurance proceeds; provided, however, Tenant shall only be required to pay such balance and difference directly, as opposed to as a CAM Expense, if all other tenants of the Project are similarly required by their respective leases as of the date of such damage to pay such amounts in the event of damage to the Project caused by such other tenants and Landlord has provided reasonable evidence of such similar requirements of all other tenants. If the Lease does not terminate as a result of the damage but the damage materially interferes with Tenant's use of the Premises or any portion thereof, then the Base Rent shall be reduced pro rata, to reflect the portion of the Premises not useable by Tenant.

12.3 End of Term. If the damage to the Premises occurs during the last 12 months of the Term, and the damage is reasonably estimated to require more than 60 days to repair, either Landlord or Tenant may elect to terminate this Lease as of the date the damage occurred regardless of the sufficiency of any insurance proceeds. The party electing to terminate this Lease shall give written notification to the other party of such election within 20 days after the Casualty Notice is received by Tenant.

12.4 Casualty Termination. If (a) the Premises are damaged by casualty and the damage substantially interferes with Tenant's ability to operate in the Premises, (b) the damage was not due to an act or omission of Tenant, it's agents or employees, and (c) Landlord's reasonable estimate of completion of the restoration described in the Casualty Notice is more than one hundred eighty (180) days after the occurrence of the casualty, or, if permits are required then 180 days after Landlord obtains all permits and approvals for the restoration, Tenant may terminate this Lease by written notice to Landlord given within thirty (30) days after Tenant's receipt of Landlord's estimate of the repair completion date. Similarly, if the repair is not sufficiently completed to allow Tenant to resume its operations in the Premises within one hundred eighty (180) days after receipt of the necessary permits and approval, Tenant may terminate this Lease by 30 days written notice to Landlord if the repair is not sufficiently completed to allow Tenant to resume its operations in the Premises by the end of that 30 day period.

13. CONDEMNATION

If the Project is condemned or taken for any public or quasi-public purpose, including any purchase in lieu of condemnation, this Lease shall terminate as of the date of taking of possession for such use or purpose. If a portion of the Project is condemned or taken, (whether or not the Premises be affected), Landlord may, by notice to Tenant, terminate this Lease as of the date of the taking of possession, provided that Landlord terminates the leases of all similarly situated tenants. If Landlord does not terminate this Lease, and if the taking results in a reduction in the square footage of the Premises, then the Base Rent shall be reduced pro-rata, and Landlord shall perform any necessary repairs to restore the Building to a complete unit. Landlord shall be entitled to the entire award in any condemnation proceeding, including any award for the value of any unexpired term of this Lease, and shall have the exclusive authority to settle the condemnation proceeding, and the exclusive discretion to grant "possession and use" to the condemning authority, and Tenant shall have no claim against Landlord or against the proceeds of the condemnation, provided, however, that Landlord shall not be entitled to any moneys paid to Tenant by the condemnor for moving expenses and business losses pursuant to applicable relocation statutes.

14. INSOLVENCY AND DEFAULT

14.1 Defaults. Tenant shall be in default under this Lease if (a) Tenant fails to pay any Rent when due, or (b) Tenant fails to perform any other obligation under this Lease, or (c) a Financial Distress Default (Section 14.9) occurs. Subject to the late charges and interest due under Section 14.8, Landlord agrees that it shall not invoke its remedies under this Section 14 if Tenant cures a Curable Default (defined below) within the applicable cure period (set forth in Section 14.2 below). If a Curable Default occurs and Tenant fails to cure the default within the applicable cure period or if any other default occurs, Landlord may, immediately or at any time thereafter, and without preventing Landlord from exercising any other right or remedy, elect to terminate this Lease by notice, by lawful entry or otherwise, whereupon Landlord shall be entitled to recover possession of the Premises from Tenant and those claiming through or under Tenant. In addition, Landlord may require Tenant to pay to Landlord a fee of $300 for each non-monetary Curable Default not cured within the applicable cure period if such default affects the health, safety, access, or operations of other tenants at the Project, the orderly operation of the Project, or constitutes a violation of Applicable Law. The fee shall be due and payable within 10 days after Landlord's invoice and if not paid within that time period shall represent a monetary default and is intended to compensate Landlord for the additional time and effort required to address the breach. Termination of this Lease and any repossession shall be without prejudice to any remedies Landlord has for arrears of Rent or for a prior breach of any of the provisions of this Lease.

In case of termination, Tenant shall be liable to Landlord for all costs and expenses including the amounts due under Sections 14.3 and 14.4. If Tenant fails to perform any of Tenant's covenants which Tenant has failed to perform at least twice previously in any 12-month period (although Tenant shall have cured any such previous breaches after notice from Landlord, and within the applicable cure period), then Landlord may there-after, without further notice, exercise any remedies permitted by this Section 14 or by law, including termination of this Lease. Each right and remedy provided Landlord in this Lease is cumulative and in addition to every other right or remedy provided in this Lease, or now or hereafter existing at law, in equity, by statute or otherwise. The exercise by Landlord or any one or more such rights or remedies will not preclude the simultaneous or later exercise by Landlord of any or all other rights or remedies.

14.2 Cure Periods.

Monetary Default. If Tenant fails to pay any Rent when due, it is a Curable Default and the cure period shall be 5 business days after notice from Landlord of such failure; provided, however, a monetary default is not a Curable Default upon the third and each subsequent monetary default in any 12 month period.

Financial Distress Default (see Section 14.9). An Involuntary Financial Distress Default is a Curable Default and the cure periods are set forth in Section 14.9. A Voluntary Financial Distress Default is not a Curable Default.

Insurance Default. If Tenant fails to maintain the required insurance, it is a Curable Default and the cure period is 3 business days after such failure occurs.

Estoppel or Subordination Default. If Tenant fails to provide the requested estoppel certificate (Section 15.3) or subordination agreement (Section 15.1) within the time period provided in such sections, it shall be a Curable Default and the cure period shall be 5 business days after written notice from Landlord of such Curable Default.

Hazardous Materials. If Tenant breaches the provisions of Section 6.4 (Hazardous Materials) it shall be a Curable Default and the cure period shall be 5 business days after notice from Landlord.

Non-Approved Contractor. If Tenant utilizes any contractor not approved by Landlord in violation of the provisions of Section 8.1 or the Work Letter, the cure period shall be 5 business days after notice from Landlord.

Other Defaults. Any non-monetary breaches of this Lease not listed above in this Section 14.2 shall be considered Curable Defaults and the cure period shall be 15 days after notice from Landlord (or such longer period of time (but in no event more than 60 days) as is reasonably necessary to cure the default provided Tenant commences to cure such default within said 15 day period and diligently prosecutes such cure to completion).

14.3 Expense Recovery. Items of expense for which Tenant shall be liable to Landlord for in connection with a termination of this Lease for default shall include: (i) all collection costs and all costs of obtaining Tenant's compliance with this Lease, including attorneys' fees and enforcement costs; and (ii) all Landlord's other costs proximately caused by the termination. The above sums shall be due and payable immediately upon notice from Landlord without regard to whether the cost or expense was incurred before or after the termination of this Lease. If proceedings are brought under the Bankruptcy Code, including proceedings brought by Landlord, which relate in any way to this Lease (in any of such cases a "**Proceeding**"), Landlord shall be reimbursed for all costs incurred in connection with the Proceedings.

14.4 Damages. Notwithstanding termination of this Lease and reentry by Landlord pursuant to Section 14.1, Landlord shall be entitled to recover from Tenant:

(a) Any unpaid Rent which had been earned by Landlord prior to the time of termination with interest at the Default Rate (defined in Section 14.8); plus

(b) The amount by which the unpaid Rent which would have been earned after termination until the time of an award exceeds the amount of loss of Rent that Tenant proves could have been reasonably avoided, with interest at the Default Rate; plus

(c) The worth at the time of an award of the amount by which the unpaid Rent for the balance of the term of this Lease (as extended, if at all, prior to termination) exceeds the amount of such loss of Base Rent and Additional Rent that Tenant proves could have been reasonably avoided (including interest at the Default Rate from the date of the award until paid), discounted at the discount rate of the Federal Reserve Bank of San Francisco, or successor Federal Reserve Bank, on the date of termination; plus

(d) Any other amount necessary to compensate Landlord for all the damage proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including amounts due and payable pursuant to Section 14.3.

14.5 Non-Termination of Lease. No act of Landlord other than a written declaration of termination of Lease shall serve to terminate this Lease. If there is a default hereunder and Tenant fails to cure it within any applicable cure period, Landlord shall have the right to reenter the Premises and relet the Premises for Tenant's account, without terminating the Lease. If Landlord reenters the Premises and does not elect to terminate this Lease, Tenant shall pay Landlord the loss of Rent by a payment at the end of each month during the remaining Term representing the difference between the Rent which would have been paid in accordance with this Lease and the rent collected from the Premises by Landlord for such month. Separate claims may be maintained by Landlord against Tenant from time to time to recover any damages which, at the commencement of any action, are then due and payable to Landlord under this Section 14 without waiting until the end of the Term of this Lease.

14.6 Reletting. If Tenant's right of possession has been terminated (with or without termination of this Lease), Landlord may at any time, and from time to time, relet the Premises in whole or in part either in its own name or as agent of Tenant for any period equal to or greater or less than the remainder of the then-current Term. All rentals received by Landlord from such reletting shall be applied first to the payment of any amounts other than Rent due hereunder from Tenant to Landlord; second, to the payment of any costs and expenses of such reletting and of alterations and repairs; third, to the payment of Rent due and unpaid hereunder; and the residue, if any, shall be held by Landlord and applied in payment of future Rent as it becomes due hereunder. Upon a reletting of the Premises, Landlord shall not be required to pay Tenant any sums received by Landlord in excess of amounts payable in accordance with this Lease.

14.7 Right of Landlord to Cure Defaults. If Tenant defaults under this Lease, Landlord may cure the default, at Tenant's expense, immediately and without notice if Landlord believes the default creates a risk of damage to persons, property or the interests of others, or in any other case only upon Tenant's failure to remedy such default within the applicable cure period, if any. Tenant shall reimburse Landlord for any costs of the cure with interest at the Default Rate (defined in Section 14.8).

14.8 Unpaid Sums and Late Charge. Any amounts owing from Tenant to Landlord under this Lease which are not paid when due shall bear interest at 8% per annum (the "**Default Rate**"), calculated from the date due or expended until the date of payment. In addition, if Tenant shall fail to pay when due any installment of Base Rent or any other sums due under this Lease, a late charge equal to $500 as liquidated damages for Landlord's extra expense and handling of such past due account (a "**Late Fee**") provided, however, Landlord agrees to waive the Late Fee for the first and second late payment in the first twelve (12) months of the Lease Term so long as Tenant pays the amount due within five (5) days after written notice from Landlord.

14.9 Financial Distress.

14.9.1 Definition. Each of the following shall be an "Financial Distress Default" under this Lease: (a) the making by Tenant of any general assignment or general arrangement for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt, or a petition for reorganization or arrangement under any law relating to bankruptcy; (b) the appointment of a trustee or a receiver to take possession of all or any part of Tenant's assets; or (c) the entry of any final judgment against Tenant for an amount greater than $100 million. A Financial Distress Default shall be considered "**Voluntary**" if the action initiating the default was made by Tenant or a person or entity controlling, controlled by, or under common control with Tenant and otherwise shall be considered "**Involuntary**". For example, a bankruptcy filing initiated by Tenant is a Voluntary Financial Distress Default and a bankruptcy filing by creditors of Tenant shall be considered an Involuntary Financial Distress Default. Tenant shall immediately notify Landlord upon the occurrence of any Financial Distress Default. Tenant shall have 60 days to cure an Involuntary Financial Distress Default under clause (a) above. Tenant shall have 30 days to cure an Involuntary Financial Distress default under clauses (b) and (c) above. If a Voluntary Financial Distress Default occurs or if an Involuntary Financial Distress Default is not cured within the above cure periods, then the provisions of Section 14.9.2 shall apply.

14.9.2 Filing of Petition. If a petition ("**Petition**") is filed by or against Tenant (as either debtor or debtor-in-possession) under Title 11 of the United States Code (the "**Bankruptcy Code**") and same is not dismissed within 60 days thereafter:

(a) Adequate protection for Tenant's Lease obligations accruing after filing of the Petition shall be provided within 15 days after filing in the form of a deposit equal to two months Base Rent and Additional Rent (in addition to the Security Deposit), to be held by the court or an escrow agent approved by Landlord and the court.

(b) All amounts payable by Tenant to Landlord under this Lease represent reasonable compensation for the occupancy of the Premises by Tenant.

(c) Tenant or Trustee shall give Landlord at least 30 days written notice of any abandonment of the Premises or proceeding relating to administrative claims. If Tenant abandons without notice, Tenant or Trustee shall stipulate to entry of an order for relief from stay to permit Landlord to reenter and relet the Premises.

(d) For purposes of Section 365(b)(1) of the Bankruptcy Code, prompt cure of defaults shall mean cure within 30 days after assumption and shall include cure of any defaults under any other agreements between Landlord and Tenant.

(e) For the purposes of Section 365(b)(1) the Bankruptcy Code, adequate assurance of future performance of this Lease by Tenant, Trustee or any proposed assignee of the Lease will require that Tenant, Trustee or the proposed assignee deposit two months Base Rent and Additional Rent payments into an escrow fund (to be held by the court or an escrow agent approved by Landlord and the court) as security for such future performance. In addition, if the Lease is to be assigned, adequate assurance of future performance by the proposed assignee shall require that the assignee have a tangible net worth equal to eight times the annual Rent due hereunder or that such assignee's performance be unconditionally guaranteed by a person or entity that has a tangible net worth not less than the above amount.

(f) If Tenant or Trustee intends to assume and/or assign the Lease, Tenant or Trustee shall provide Landlord with 30 days written notice of the proposed action, separate from and in addition to any notice provided to all creditors. Notice of a proposed assignment and assumption shall state the assurance of prompt cure, compensation for loss and assurance of future performance to be provided to Landlord. Notice of a proposed sale shall state: (i) the name, address, and federal tax ID numbers of the proposed assignee; (ii) the terms and conditions of the proposed assignment, and (iii) the proposed assurance of future performance.

14.10 Default by Landlord. Subject to Section 15.4, Landlord shall not be in default under this Lease unless Landlord (or such ground lessor, mortgagee or beneficiary) fails to cure such non-performance within 30 days after receipt of Tenant's written notice (or such longer period of time as is reasonably necessary to cure the default provided Landlord commences to cure such default within said 30 day period and diligently prosecutes such cure to completion) and such notice shall also be sent in accordance with Section 15.4. If Landlord fails to cure the default within the cure period, Tenant shall have all rights and remedies available at law and in equity other than the right to terminate the Lease or any offsets against Rent.

15. PROTECTION OF LENDERS

15.1 Subordination. This Lease shall be subordinate to any financing now existing or hereafter placed upon the Project by Landlord, and to any and all advances to be made thereunder and to interest thereon and all modifications thereof (each, a "**Mortgage**"). This provision shall be self-operative. Tenant shall execute and deliver any subordination agreement required by the holder of a Mortgage within 10 business days of written request, but only if any such subordination agreement provides that so long as Tenant is not in default under this Lease beyond any applicable cure period, Tenant shall have the continued enjoyment of the Premises free from any disturbance or interruption by any holder of a Mortgage or any purchaser at a foreclosure or private sale of the Project and such holder or purchaser shall agree to recognize Tenant's rights under this Lease as long as Tenant is not then in default beyond any applicable cure periods.

15.2 Attornment. If Landlord's interest in the Premises is acquired by any ground lessor, holder of a Mortgage, or purchaser at a foreclosure sale, or transferee thereof, Tenant shall attorn to the transferee of or successor to Landlord's interest in the Premises and recognize such transferee or successor as Landlord under this Lease. Tenant waives the protection of any statute or rule of law which gives or purports to give Tenant any right to terminate this Lease or surrender possession of the Premises upon the transfer of Landlord's interest.

15.3 Estoppel Certificates. Tenant shall, within ten (10) business days of written demand, execute and deliver to Landlord a written statement certifying: (i) the commencement and the expiration date of the Term; (ii) the amount of Base Rent and the date to which it has been paid; (iii) that this Lease is in full force and effect and has not been assigned or amended in any way (or specifying the date and terms of each agreement so affecting this Lease) and that no part of the Premises has been sublet (or to the extent such is not the case, a copy of any sublease); (iv) that Landlord is not in default under this Lease (or if such is not the case, the extent and nature of such default) to Tenant's knowledge ; (v) on the date of such certification, there are no existing defenses or claims which Tenant has against Landlord (or if such is not the case, the extent and nature of such defenses or claims) to Tenant's knowledge ; (vi) the amount of the Security Deposit held by Landlord; and (vii) any other information a mortgagee or purchaser may reasonably request. It is intended that any such statement shall be binding upon Tenant and may be relied upon by a prospective purchaser or mortgagee. If Tenant fails to provide the requested estoppel within 10 days after receipt of the request, in addition to the provisions of Section 14, following a second request to Tenant, and Tenant's failure to provide the requested certificate within 48 hours, Landlord may impose a fee of $100 per day for each day of delay in providing the statement by Tenant after the 10 day or 48 hour period. The estoppel certificate shall run to the benefit of all those Landlord specifies as addressees.

15.4 Notice. Tenant shall give written notice of any failure of Landlord to perform any of its obligations under this Lease to Landlord and to any ground lessor, mortgagee or beneficiary under any deed of trust encumbering the Project whose name and address have been furnished to Tenant and such parties shall have the right but no obligation to cure the default on Landlord's behalf. Landlord shall not be in default under this Lease unless Landlord (or such ground lessor, mortgagee or beneficiary) fails to cure such non-performance within 30 days after receipt of Tenant's notice, or such longer period as is reasonably necessary for the cure.

16. LIABILITY

16.1 Landlord's Liability. The liability of Landlord to Tenant shall be limited to the interest of Landlord in the Project (and the rents, issue, profits and proceeds thereof). Tenant agrees to look solely to Landlord's interest in the Project (and the rents, issue, profits and proceeds thereof) for the recovery of any judgment against Landlord, and Landlord and its owners shall not be personally liable for any such judgment or deficiency after execution thereon or matters related to this Lease. In addition, if Landlord sells or otherwise transfers the Project to a new owner, the transferring Landlord shall not thereafter be named or sought after in any matter related to the Project relating to the time period after the transfer. If at any time the holder of Landlord's interest hereunder is a partnership, limited liability company, or joint venture, a deficit in the capital account of any partner, member or joint venture shall not be considered an asset of such partnership, limited liability company, or joint venture. Under no circumstance shall Landlord or its owners or affiliates be liable for consequential, special, punitive, exemplary or any similar type of damages, and Tenant hereby waives the same.

16.2 Tenant's Business Interruption. Notwithstanding any other provision of this Lease, and to the fullest extent permitted by law, Tenant hereby agrees that Landlord shall not be liable for injury to Tenant's personal property or its business or any loss of income therefrom, whether such injury or loss results from conditions arising upon the Premises or the Project, or from other sources or places including any interruption of services and utilities or any casualty, condemnation, whether the cause of such injury or loss or the means of repairing the same is inaccessible to Landlord or Tenant and including injury or loss to Tenant or Tenant's property arising from the acts or omissions of other occupants of the Project.

17. MISCELLANEOUS PROVISIONS

17.1 Notices. All notices required or permitted under this Lease shall be in writing and shall be (i) personally delivered, or (ii) delivered by nationally recognized courier, or (iii) sent by certified mail, return receipt requested, postage prepaid. The contact information for each party is set forth in Section 1 and may be changed by written notice to the other party. All notices shall be effective upon either delivery/receipt, or rejection of delivery/receipt, after sending in the manner described above. Tenant hereby appoints as its agent to receive the service of all dispossessory proceedings or proceedings to seize Tenant's personal property and notices thereunder the person in charge of or occupying the Premises at the time, and, if no person shall be in charge of occupying the same, then such service may be made by attaching the same on the main entrance of the Premises. If Tenant does not provide Landlord with a forwarding address following expiration or termination of this Lease, Landlord shall be relieved of any obligation to forward any funds or items to Tenant.

17.2 Non-Waiver/Accord. Failure of Landlord or Tenant to insist, in any one or more instances, upon strict performance of any term of this Lease, or to exercise any election herein contained, shall not be construed as a waiver or a relinquishment, but the same shall continue and remain in full force and effect. Neither Landlord nor Tenant shall be deemed to have waived any provision of this Lease unless expressed in writing and signed by the waiving party. Tenant specifically acknowledges that where Tenant has received a notice of default (whether Rent or non-rent), no acceptance by Landlord of Rent shall be deemed a waiver of such notice, and, acceptance by Landlord of partial Rent shall not be deemed to waive or cure any Rent default. Landlord may, in its discretion, after receipt of partial payment of Rent, refund same and continue any pending action to collect the full amount due, or may modify its demand to the unpaid portion. In either event, the default shall be deemed uncured until the full amount is paid in good funds. Payment by Tenant or receipt by Landlord of a lesser amount than the Rent and other charges stipulated herein shall be deemed to be on account of the earliest stipulated Rent or other charges. No endorsement or statement on any check or any letter accompanying any payment shall be deemed an accord and satisfaction, and Landlord's acceptance of such check or payment shall be without prejudice to Landlord's right to recover the balance of the amount due or pursue any other remedy to which it is entitled.

17.3 Brokers. Except as specified in Section 1, if any, Tenant represents and warrants to Landlord, it has not engaged any broker, finder, person providing tenant advisory services, or other person entitled to any commission or fee in respect of the negotiation, execution or delivery of this Lease, and Tenant shall indemnify and defend Landlord against any claims for such commission arising out of agreements made or alleged to have been made by or on behalf of Tenant, or by persons claiming by, through or under Tenant. Except as specified in Section 1, if any, Landlord represents and warrants to Tenant, it has not engaged any broker, finder, person providing tenant advisory services, or other person entitled to any commission or fee in respect of the negotiation, execution or delivery of this Lease, and Landlord shall indemnify and defend Tenant against any claims for such commission arising out of agreements made or alleged to have been made by or on behalf of Landlord, or by persons claiming by, through or under Landlord. If any new leases, modifications to this Lease or other agreements are made between Landlord and Tenant, Landlord shall not have any obligation to pay any brokerage or finders fees to persons engaged by Tenant. Tenant acknowledges that Landlord shall not be liable for any statements or representations made by Landlord's leasing agent, brokers, or other agents of Landlord regarding this Lease transaction except for the representations and covenants of Landlord expressly set forth in this Lease.

17.4 Entire Agreement; Amendment; Severability. This Lease supersedes all prior and contemporaneous understandings and agreements; the provisions of this Lease are intended by Landlord and Tenant as the final expression of their agreement; this Lease constitutes the complete and exclusive statement of its terms and no representations, promises or agreements, oral or otherwise, between the parties not embodied herein shall be of any force or effect. No provisions of this Lease may be changed, waived, discharged or terminated orally, but only by instrument in writing executed by Landlord and Tenant, or their respective successors in interest, concurrently with or subsequent to the date of this Lease. Tenant acknowledges that neither Landlord nor anyone representing Landlord has made statements of any kind whatsoever on which Tenant has relied in entering into this Lease. Tenant has relied solely on its independent investigation and its own business judgment in entering into this Lease. Any provision of this Lease which shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof and the remaining provisions hereof shall nevertheless remain in full force and effect.

17.5 Force Majeure. Except as specifically provided otherwise herein, time periods for Landlord's or Tenant's performance under any provisions of this Lease (except for the payment of money) shall be extended for periods of time during which the non-performing party's performance is prevented due to circumstances beyond the party's reasonable control (financial inability excepted), including strikes, embargoes, governmental regulations, inclement weather and other acts of God, war or other strife and no such delay in Landlord's performance shall constitute an actual or constructive eviction or entitle Tenant to any abatement of Rent.

17.6 Intentionally omitted.

17.7 Heirs and Assigns. This Lease binds any party who legally acquires any rights or interest in this Lease from Landlord or Tenant. However, Landlord shall have no obligations to Tenant's successor unless the rights or interests of Tenant's successor are acquired in accordance with the terms of this Lease including the restriction on assignment and subletting. If more than one person or entity executes this Lease as Tenant, the liability of each shall be deemed to be joint and several. The rights of Landlord herein shall also run to the benefit of all future owners of the Premises.

17.8 Waiver of Self-Help. Tenant waives any statutory or common law right to self-help, including any right to make repairs to the Building or common areas.

17.9 Personal Property Taxes. Tenant shall be liable for all taxes levied or assessed against personal property, furniture, or fixtures placed by Tenant in the Premises or Project, including any signage. If any taxes for which Tenant is liable under this Lease or relating to Tenant's use and occupancy of the Premises are levied or assessed against Landlord or Landlord's property and Landlord elects to pay the same, or if the assessed value of Landlord's property is increased by inclusion of such personal property, furniture or fixtures and Landlord elects to pay the taxes based on such increase, then Tenant shall reimburse Landlord, within 30 days following request, the part of such taxes for which Tenant is primarily liable hereunder.

17.10 Right to Change Public Spaces. Subject to the terms of Section 2.2 above, Landlord reserves the right at any time, without thereby creating an actual or constructive eviction or incurring any liability to Tenant, to (a) close temporarily any common areas to make repairs or changes or to prevent the acquisition of public rights in such areas, and (b) change the arrangement or location of public areas of the Project not contained within the Premises or any part thereof, including entrances, parking lots, passageways, and other public service portions of the Project.

17.11 Consent. Notwithstanding anything contained in this Lease to the contrary, Tenant hereby waives any claim against Landlord for money damages by reason of any refusal, withholding or delaying by Landlord of any consent, approval or statement of satisfaction, and in such event, Tenant's only remedies therefore shall be an action for specific performance, injunction or declaratory judgment, to enforce any right to such consent. Tenant shall pay Landlord's reasonable out-of-pocket costs incurred in connection with any requests by Tenant for consent.

17.12 Financial Statements. Within 20 days after written request from Landlord, but not more than two times per year, Tenant shall provide the most recent financial statements and tax returns for Tenant and any guarantor, assignee, or subtenant. The information shall remain confidential, subject to review by potential purchasers and lenders, who shall be instructed to maintain such confidentiality. This Section 17.12 shall be waived with respect to the Tenant so long as the Tenant is a public company with financial statements readily available on-line.

17.13 No Reservation/Counterparts/Electronic Signatures. The submission of this Lease for examination, or for execution by Tenant, does not constitute a reservation or option to Lease the Premises and this Lease becomes effective as a lease only upon (a) execution and delivery thereof by Landlord and Tenant, and (b) Landlord's receipt of the Security Deposit and pre-paid Rent in the amount set forth in Section 1 above. At Landlord's election, this Lease may be executed in counterparts and when all counterparts are executed, the counterparts shall constitute a single agreement. This Lease may be delivered electronically (e.g. fax, email, pdf) and a digital version (e.g. pdf) of the fully executed and compiled agreement will be binding as the original of this Lease and constitute "best evidence" of this agreement between the parties.

17.14 Authority. If Tenant is an entity rather than a person, each individual executing this Lease on behalf of said entity or its constituents represents and warrants that he/she is duly authorized to execute and deliver this Lease on behalf of said entity. Concurrently with the execution of this Lease, Tenant shall deliver to Landlord any entity resolutions or consents requested by Landlord to evidence such authority. Where Tenant is comprised of more than one person or entity, all covenants and obligations of Tenant hereunder shall be the joint and several covenants and obligations of each person or entity comprising Tenant. Any action permitted or required of Landlord under this Lease may, at Landlord's election, be performed by Landlord's property manager on Landlord's behalf.

17.15 Intentionally deleted.

17.16 Utility Deregulation. Tenant acknowledges that Landlord shall have sole control over the determination of which utility providers serve the Project, and Landlord shall have no obligation to give access or easement rights or otherwise allow onto the Project any utility providers except those approved by Landlord. If, for any reason, Landlord permits Tenant to purchase utility services from a provider other than Landlord's designated company(ies), such provider shall be considered a contractor of Tenant. In addition, Tenant shall allow Landlord to purchase such utility service from Tenant's provider at Tenant's rate or at such lower rate as can be negotiated by the aggregation of Landlord's tenants' requirements for such utility.

17.17 Intentionally omitted.

17.18 Choice of Law and Venue. This Lease shall be governed by the laws of the State of Washington.

17.19 Nondisclosure of Lease Terms. The terms and conditions of this Lease constitute proprietary information of each party and both parties agree to keep the same confidential. Tenant's disclosure of the terms of this Lease could adversely affect Landlord's ability to negotiate other leases and/or impair Landlord's relationship with other tenants. **Each party will not directly or indirectly disclose the terms or conditions of this Lease to any person or entity other than such party's employees, agents, lenders, attorneys, accountants, brokers or other consultants who have a legitimate need to know such information and who also agree, in written form acceptable to the other party, to keep the same confidential and except as required by law or other requirements imposed upon public companies. Landlord may also disclose the terms of this Lease to any prospective purchaser of the Project on the foregoing terms.**

17.20 Regulations. Tenant shall comply with the terms and conditions of any of the following applicable to the Project and any subsequent changes thereto: (a) CC&R's, REA's or other covenants recorded against the Project, if any, and any design guidelines referenced therein and any amendments thereto, and (b) any transportation management plan adopted for the Project and all amendments thereto. The population density within the Premises as a whole shall at no time exceed one person for each 125 square foot of space in the Premises. Landlord represents to Tenant that, to the best of Landlord's knowledge, there are no CC&R's, REA's or other covenants recorded against the Project as of the date of this Lease which may have an adverse effect on Tenant's ability to use, access and operate in the Premises for general office use.

17.21 Landlord's Access. Landlord or its agents may enter the Premises to show the Premises to potential lenders, tenants, or other parties, to make repairs, alterations or improvements, to inspect and conduct tests in order to monitor Tenant's compliance with this Lease or applicable laws or ordinances, to perform earthquake safety-related work required by applicable municipal authorities, laws or codes, or for any other purpose Landlord reasonably deems necessary. Landlord shall give Tenant not less than 24 hours' prior notice of such entry, except in the case of emergency. Landlord may place customary "For Sale" or "For Lease" signs in and about the Premises and Project. Landlord shall have the right to use any means which Landlord may deem proper to enter the Premises in an emergency. Landlord's entry to, and work in, the Premises shall not under any circumstances be construed to be a forcible or unlawful entry into the Premises or an eviction of Tenant from the Premises.

17.22 Quiet Possession. If Tenant pays the Rent and complies with all other terms of this Lease, Tenant may occupy the Premises for the full Term against any person claiming by, through or under Landlord, but not otherwise, subject to the provisions of this Lease.

17.23 Costs and Attorneys' Fees. In the event of litigation between the parties hereto, declaratory or otherwise to enforce this Lease, the non-prevailing party shall pay the costs thereof and attorneys' fees actually incurred by the prevailing party, in such suit, at trial and on appeal. In addition, if Landlord engages counsel to enforce the terms of this Lease, including for the purpose of preparing a delinquency notice, Tenant shall be required to reimburse Landlord for all costs incurred before the subject default is considered cured. Tenant shall pay Landlord's attorneys' fees and other reasonable out-of-pocket costs incurred in connection with any other requests for Landlord's consent. In addition to the foregoing in this Section 17.23, if either party ("secondary party") without fault is made a party to litigation instituted by or against the other party, the primary party shall pay to the secondary party all costs and expenses, including reasonable attorneys' fees, incurred by the secondary party in connection therewith.

17.24 Interpretation. The captions of sections or subsections of this Lease are to assist the parties in reading this Lease and are not a part of the terms and provisions of this Lease. Whenever required by the context of this Lease, the singular shall include the plural and the plural shall include the singular. The masculine, feminine and neuter genders shall each include the other. In any provision relating to the conduct, acts or omissions of Tenant, the term "Tenant" shall include Tenant's agents, employees, contractors, invitees, successors or others using the Premises with Tenant's expressed or implied permission. References to "including" shall mean "including without limitation". Any reference in this Lease to business days means weekdays, other than holidays on which the Federal government offices are generally closed. If a period is stated as a number of months, and not qualified as calendar months, it means that each "month" concludes on the same date as the starting date. For purposes of clarity, if a three-month period starts on the fifteenth of June, it terminates on the fifteenth of September. If the starting day does not exist in the terminating month (e.g. a three-month period that starts on November 30), it shall terminate on the last day of the terminating month (i.e. February 28). This Lease has been negotiated at arm's length and between persons sophisticated and knowledgeable in the matters dealt with herein. Each party had the opportunity to be represented by experienced and knowledgeable legal counsel. Accordingly, any rule of law or legal decision that would require interpretation of any ambiguities in this Lease against the drafter is not applicable and is waived.

17.25 No Recordation. Tenant shall not record this Lease without prior written consent from Landlord. However, Landlord may require that a "Short Form" memorandum of this Lease executed by both parties be recorded.

17.26 Waiver of Jury Trial. Landlord and Tenant hereby waive all rights to request a jury trial in any proceeding or counterclaim arising out of this Lease or Tenant's right to occupy the Premises. Any Tenant counterclaims shall be raised in a separate proceeding rather than any summary proceeding for non-payment of Rent or possession of the Premises. Tenant further waives any right to remove said summary proceeding to any other court or consolidate said summary proceeding with any other action, whether brought before or after the summary proceeding.

17.27 Survival. The obligations of each party applicable to time periods prior to the termination or expiration of this Lease shall survive termination or expiration of this Lease, including aa party's right to indemnification and defense from claims arising from matters occurring prior to termination even though the claim is asserted against such indemnified party after termination, and payment of amounts not finally calculated by the expiration/termination date.

17.28 Holding Over. If Tenant fails to surrender possession of the Premises upon termination or expiration of this Lease, occupancy of the Premises after the termination or expiration shall be that of a tenancy as sufferance. Tenant's occupancy of the Premises during the holdover shall be subject to all the terms and provisions of this Lease except that Tenant shall pay an amount (on a prorated basis for partial months during the holdover) equal to 150% of the sum of the installment of Base Rent payable by Tenant for the period immediately preceding the holdover for the first 6 months of holdover and thereafter for any additional period of holdover, an amount (on a prorated basis for partial months during the holdover) equal to 200% of the sum of the installment of Base Rent payable by Tenant for the period immediately preceding the holdover. No holdover by Tenant or payment by Tenant after the expiration or early termination of the Lease shall be construed to extend the Term or prevent Landlord from immediate recovery of possession of the Premises by summary proceeding or otherwise. In addition to the payment of the amounts provided above, if Landlord is unable to deliver possession of the Premises to a new tenant, or to perform improvements for a new tenant, as a result of Tenant's holdover, Tenant shall be liable to Landlord for all damages, including, without limitation, consequential damages, that Landlord suffers from the holdover. Nothing herein shall be construed as consent to such holding over.

17.29 Rent Abatement. The Rent Abatement is conditioned upon Tenant's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Tenant during the Term. If Tenant defaults hereunder and fails to cure the default within any applicable cure period, and Landlord terminates the Lease, all unamortized Rent Abatement (i.e. based upon the amortization of the abated Base Rent in equal monthly amounts, without interest, during the period commencing on the Commencement Date and ending on the Expiration Date) shall be immediately due and payable by Tenant to Landlord.

17.30 Adjustments. Landlord reserves the right to adjust the rentable area of the Premises set forth in Section 1 based on any future measurement of the Premises and Building by Landlord in accordance with commercially reasonable standards uniformly applied and if such area is adjusted, Tenant's Share (but not Base Rent) shall be automatically adjusted based on the new measurement.

17.31 Intentionally deleted.

17.32 USA Freedom Act and Anti-Terrorism Laws. Landlord and Tenant each represent and warrant that neither they nor the officers and directors controlling Landlord and Tenant, nor any person or entity that directly owns a 10% or greater equity interest in it, respectively, are acting, directly or indirectly, for or on behalf of any person, group, entity, or nation with whom U.S. persons or entities are restricted from doing business under the regulations of the Office of Foreign Asset Control ("**OFAC**") of the United States Treasury Department, including those named on the OFAC's Specially Designated National and Blocked Person List, or are acting directly or indirectly for or on behalf of any person, group, entity, or nation designated in Presidential Executive Order 13224 signed on September 24, 2001 ("**Executive Order**") or in the USA Freedom Act (enacted June 2, 2015) ("**USA Freedom Act**") as a person who commits, threatens to commit, or supports terrorism; or are acting directly or indirectly for a person, group, entity or nation in violation of the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 or the regulations or orders promulgated thereunder (the "**Money Laundering Act**"); and that they are not engaged in this transaction directly or indirectly on behalf of, or facilitating this transaction directly or indirectly on behalf of, any such person, group, entity or nation. Each party agrees during the Term of this Lease to comply with the Executive Order, USA Freedom Act and the Money Laundering Act, and to defend, indemnify, and hold harmless the other party from and against any and all claims, damages, losses, risks, liabilities and expenses (including reasonable attorneys'

{Remainder of page intentionally left blank. Signatures and acknowledgments on following pages.}

TENANT:

BSQUARE CORPORATION,
a Washington corporation

By: _____

Name: _____

Its: _____

Date Signed: _____

STATE OF _____)
) ss.
COUNTY OF _____)

I certify that I know or have satisfactory evidence that _____ is the person who appeared before me, and said person acknowledged that he/she signed this instrument, on oath stated that he/she was authorized to execute the instrument and acknowledged it as the _____ of BSQUARE CORPORATION to be the free and voluntary act of such party for the uses and purposes mentioned in this instrument.

Dated: _____.

(Insert notary seal here)

_____
(Signature of Notary Public)

_____
(Printed Name of Notary Public)

My Appointment expires _____

LANDLORD:

1415 WESTERN LLC,
a Washington limited liability company

By: _____
Its: _____
Date Signed: _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I certify that I know or have satisfactory evidence that _____ is the person who appeared before me, and said person acknowledged that he signed this instrument, on oath stated that he was authorized to execute the instrument and acknowledged it as manager of 1415 WESTERN LLC, to be the free and voluntary act of such party for the uses and purposes mentioned in this instrument.

Dated: _____.

(Insert notary seal here)

_____
(Signature of Notary Public)

_____
(Printed Name of Notary Public)

My Appointment expires _____

RIDER TO LEASE

ADDITIONAL PROVISIONS

THE PROVISIONS SET FORTH IN THIS RIDER CONTROL TO THE EXTENT THEY CONFLICT WITH ANY PROVISION SET FORTH IN THE BODY OF THE LEASE.

1. Option to Extend.

1.1 Option. Provided that Tenant is not in default under the Lease beyond all applicable notice and cure periods when it exercises the option or on commencement of the Option Term, Tenant shall have one option to extend the Term for a period of 60 months (the "**Option Term**"), upon the same terms and conditions as are set forth in the Lease, except the Base Rent shall be adjusted as described in Section 1.2 of this Rider to Lease, and Landlord shall have no obligation to provide any free rent period, tenant improvements or allowances therefor or other concessions or extension options. Tenant's option to extend the Term shall be exercised, if at all, by written notice to Landlord given not less than nine (9) months, but not more than fifteen (15) months, prior to the expiration of the then existing Term. Exercise of the extension option shall be conditioned upon the following being true at the time the option is exercised, and at the time the Option Term is to commence: there having been no Transfer of the Lease (except a Permitted Transfer), as such terms are defined in Section 11 of the Lease. The exercise of the extension option shall extend the Lease for the entire Premises. Once delivered, Tenant's notice of its election to extend the Term cannot be cancelled or revoked by the Tenant.

1.2 Base Rent. The monthly Base Rent payable during any Option Term shall be equal to 100% of the Fair Market Base Rent (defined below) for the Premises as of the commencement of the Option Term.

1.3 Fair Market Base Rent defined. The "**Fair Market Base Rent**" shall mean the monthly Base Rent with then market annual escalations at which new tenants are then entering into renewal terms of "triple net" leases for non-sublease space which is not encumbered by expansion rights for a term comparable to the Option Term, for comparable office space in buildings located in the downtown Seattle central business district market, and which is otherwise comparable in size, age, floor location and finish quality to the Premises. "Fair Market Base Rent" shall be adjusted for improvement allowances, rent abatement, or other inducements or concessions applicable to the Option Term. To the extent that the rent under any otherwise comparable lease is calculated on a "gross" or "modified gross" rather than a triple net basis, appropriate adjustments shall be made so that a comparable Base Rent can be calculated. The Fair Market Base Rent for the Premises shall be determined as set forth below.

1.4 Negotiation Period. Landlord shall provide a written statement of its valuation of Fair Market Base Rent not later than the date which is one hundred twenty (120) days prior to the commencement of the Option Term, which Tenant may accept or reject in its sole discretion. If Landlord and Tenant do not reach agreement on Fair Market Base Rent on or before the 90th day prior to commencement of the Option Term, Fair Market Base Rent shall be set by appraisal as provided below in this Section 1.

1.5 MAI Appraisal. If the parties do not agree on the Fair Market Base Rent for the Option Term within the period provided above in Section 1.4, then each party, at its cost and by giving notice to the other party, shall have 10 days within which to appoint an MAI appraiser or commercial office leasing broker ("**Valuation Expert**") with at least 10 years' experience appraising commercial properties in the downtown Seattle central business district office real estate market, to determine and set the Fair Market Base Rent for the Option Term. Such Fair Market Base Rent shall include then typical fixed annual increases. If a party does not appoint a Valuation Expert within such 10 day period, the single Valuation Expert appointed shall be the sole Valuation Expert and shall set the Base Rent for the Option Term. If two Valuation Experts are appointed by the parties as stated in this Section 1.5, they shall meet promptly and attempt to set the Base Rent for the Option Term. If they are unable to agree within 20 days after the second Valuation Expert has been appointed, they shall (i) notify the parties of their respective determinations of Fair Market Base Rent, and (ii) attempt to select a third Valuation Expert meeting the qualifications stated in this paragraph within 10 days after the last day the two Valuation Experts are given to set the Base Rent for the Option Term. If they are unable to agree on the third Valuation Expert, either of the parties to this Lease, by giving 10 days' notice to the other party, may apply to the Presiding Judge of the Superior Court for King County, Washington, for the selection of a third Valuation Expert who meets the qualifications stated in this Section 1.5. Each of the parties shall bear the cost of its own Valuation Expert and one-half of the cost of appointing the third Valuation Expert and of paying the third Valuation Expert's fee. The third Valuation Expert, however selected, shall be a person who has not previously acted in any capacity for either party.

1.6 Reconciling Conflicting Appraisals. Each of the two Valuation Experts shall submit its determination of Fair Market Base Rent, with supporting documentation, to the third Valuation Expert. The third Valuation shall prepare its own valuation of Fair Market Base Rent. The determinations of the three Valuation Experts shall be added together and their total divided by three, and the resulting quotient shall be the Base Rent for the Premises during such Option Term; provided, however that if the lowest or highest determination for the starting Base Rent is more than ten percent (10%) less than (or greater than, as applicable) the middle determination, then such determination shall be excluded and the Base Rent for the Option Term shall be the average of the remaining determinations. The same procedure shall be followed for determining the annual increases. The determination of Fair Market Base Rent as provided for in this Section 1 shall be final, conclusive and binding upon both parties.

1.7 Transitional Payments. If the Base Rent for the Option Term has not been determined by the commencement date of the Option Term, then until such Base Rent is determined, Tenant shall pay Base Rent to Landlord at the rate in effect immediately preceding the Option Term. If the actual Base Rent for the Option Term is determined to be higher or lower than the previously payable Base Rent, then within 15 days after the determination of the new Base Rent, Landlord or Tenant shall reimburse the difference for each month of the Option Term for which Base Rent has already been paid.

2. Intentionally omitted.

3. **Right of First Refusal**. Provided Tenant is not in default beyond any Cure Period, if Landlord receives a written offer from a third party (including any existing tenant or subtenant of the Refusal Space as defined below) ("**Offering Party**") that Landlord is willing to accept for lease of any space on the 6th floor of the Building ("**Refusal Space**"), Tenant shall have the first right to obtain such Refusal Space on the terms of such offer. Promptly after the receipt of such offer, Landlord shall give Tenant notice thereof in reasonable detail including but not limited to base rental, rent concessions, potential tenant improvements performed by Landlord, tenant improvement allowances, lease term and options (the "**Notice of Offered Lease**"). On or before the fifth (5th) business day after receipt of the Notice of Offered Lease, Tenant may exercise this right by sending Landlord a notice stating that Tenant elects to rent such Refusal Space (in whole, not in part) upon the terms and conditions set forth in the Notice of Offered Lease (the "**Offered Lease Terms**"). If Tenant provides such notice, Landlord and Tenant shall enter into a lease for such Refusal Space within 30 days after the later of the date of Tenant's exercise notice on the Offered Lease Terms and Tenant's receipt of the first draft of the new lease or amendment to this Lease adding the Refusal Space. If Tenant does not timely exercise the right of first refusal, or if Tenant properly exercises such right but thereafter for any reason (other than the fault of Landlord) the parties do not timely enter into the new lease, Tenant's rights under this paragraph with respect to such Refusal Space shall terminate and Landlord shall be free to lease such Refusal Space to the Offering Party upon the Offered Lease Terms or to any other third party on substantially the same terms (i.e. same or less favorable rent rate and value of any lease concessions) as the Offered Lease Terms. This right of first refusal is (a) personal to Tenant and any Permitted Transferee and may not be exercised by any subtenant or assignee of Tenant, and (b) subject to the rights of existing tenants and subtenants of the Refusal Space as of the date hereof to holdover in the Refusal Space, provided that Landlord performs its obligations with respect to holdover tenants and subtenants in this Section 3 below. Landlord covenants not to consent to nor enter into any agreement after the date of this Lease for an extension or renewal of lease term nor a right of holding over of any current tenant or subtenant of the Refusal Space. In the event any current tenant or subtenant of the Refusal Space holds over past the term of its lease or sublease, as applicable, Landlord shall use commercially reasonable efforts to remove such tenant or subtenant from the Refusal Space and such efforts shall include, if such tenant or subtenant holds over for longer than sixty (60) days after the expiration of the applicable term, as applicable, the immediate filing of an unlawful detainer action. If Landlord and such Offering Party or any third party do not agree upon a new lease for the Refusal Space upon the Offered Lease Terms (or terms that are substantially similar thereto as described above) within six (6) months of the delivery of the Notice of Offered Lease, or if the term of such new lease expires during the Term of the Lease, Tenant's rights under this Section 3 shall be revived.

4. **Tenant Improvement Allowance**. Landlord shall provide a tenant improvement allowance of up to $203,400.00 (i.e., up to $30.00/sf of the Premises) (the "**TI Allowance**") to be applied to the hard and soft costs incurred in connection with the design and construction of the Tenant Improvements (defined in **Exhibit C** (Work Letter)), including without limitation sales tax, design and space planning costs, project management, architect and engineer fees, permitting costs, costs associated with any change orders, and a construction management fee of 3% of the Tenant Improvements payable to Pinnacle Commercial, Landlord's construction manager. No portion of the TI Allowance shall be used for Tenant's cabling, telecommunications, fixturing, equipment, furniture, moving costs, or related costs.

4.1 **Space Planning Allowance.** At Tenant's request, provided Tenant has fully and timely performed all of its obligations hereunder as of the date of such request, Landlord will fund up to an additional $0.15 per rentable square feet in the Premises ($1,017.00) (the "**Additional Allowance**") toward the cost of a space plan for the Tenant Improvements in the Premises. The drawing of the Additional Allowance shall be on the same terms as the TI Allowance described above. Notwithstanding the foregoing, the parties agree that Tenant shall have the right to apply this Additional Allowance to the cost of the Tenant's Work.

4.2 **Sunset.** Notwithstanding anything to the contrary in this Section 4, Tenant shall have no right to draw, use or apply any of the TI Allowance after the date that is 12 months from the Lease Commencement Date. Any balance of the TI Allowance remaining thereafter shall be retained by Landlord and shall not be available as a credit against rent or otherwise.

EXHIBIT A

LEGAL DESCRIPTION OF PROJECT

Lot 4, Block 175, Original Plat of Seattle Tidelands, as re-established by Judgment and Decree entered November 7, 1977 under King County Superior Court Cause No. 831712; and that portion of Lot 7, Block I, Addition to the Town of Seattle, as laid out by A.A. Denny (Commonly known as A.A. Denny's 4th Addition to the City of Seattle), according to the plat thereof recorded in Volume 1 of Plats, Page 69, in King County, Washington, lying Easterly of the Northeasterly line of said Block 175;

Together with that portion of Alaskan Way vacated pursuant to City of Seattle Ordinance No. 109254 which attached thereto by operation of law.

EXHIBIT B

FLOOR PLAN
(Not to scale)

[waiting for updated floor plan]

B-1

EXHIBIT C

WORK LETTER

A. LANDLORD'S WORK AND TENANT'S WORK

Landlord's Work: "Landlord's Work" - None

Tenant's Work: "Tenant's Work" means all improvements, fixturing and other work to the Premises.

B. GENERAL PROCEDURES – TENANT'S WORK

The preparation of all design and working drawings and specifications relating to completion of the Premises for occupation by Tenant and the taking of bids and letting of contracts relating to Tenant's Work and the supervision and completion of Tenant's Work and payment therefore shall be the responsibility of Tenant.

Approvals must be obtained by Tenant for its work from the applicable building department and all other authorities having jurisdiction and Tenant must submit evidence of these approvals to Landlord before commencing work. Tenant shall be responsible for payment of all fees and charges incurred in obtaining said approvals and for obtaining a certificate of occupancy prior to opening.

Tenant agrees to utilize only a general contractor and plumbing, electrical, HVAC and other mechanical contractors or subcontractors either utilized by Landlord or approved in writing by Landlord.

Tenant acknowledges and agrees that neither Landlord's architect nor Landlord owes any duty nor assumes any responsibility to Tenant or Tenant's architect with respect to the compliance or non-compliance of Tenant's plans and specifications with any building, safety or health codes or the adaptability of the proposed improvements, the use intended, or otherwise.

C. PLANS AND SPECIFICATIONS.

Tenant shall work with its space planners and will provide its proposed space plan for approval by Landlord not to be unreasonably withheld, conditioned or delayed. Once Landlord has approved a space plan, Tenant will submit to Landlord for its approval working drawings and specifications. Those plans and specifications which are approved by Landlord shall be referred to as the "Approved Final Plans". Landlord agrees to respond to Tenant with approval or reasons for denying approval to Tenant's space plan and plans and specifications within 10 days of receipt. If Landlord fails to respond within such period of time, provided Tenant confirms that Landlord received such plans, the same shall be deemed approved. Tenant shall keep a complete set of the Approved Final Plans on the Premises throughout the duration of the Tenant's Work.

D. GENERAL REQUIREMENTS

1. Tenant's Work shall be carried out with good workmanship and with new materials, which shall all be of a high quality and conforming to the best standards of practice, and shall not be in contravention of the laws, codes or regulations.

2. Before commencing Tenant's Work, Tenant shall furnish to Landlord: (i) certificates of insurance evidencing Tenant maintains the insurance required by the Lease to be carried by Tenant, (ii) a certificate of insurance evidencing Tenant's architect carries professional liability insurance in the amount of at least $2,000,000, and (iv) certificates of insurance from Tenant's contractor evidencing such contractor carries and maintains the following insurance coverage: general liability, builders risk, worker's compensation and any other insurance reasonably required by Landlord to the limits and on the terms which Landlord may reasonably approve. At a minimum, Tenant's contractors shall carry $1,000,000 general liability insurance each occurrence, $2,000,000 general aggregate, $2,000,000 products/completed operations aggregate, $1,000,000 automobile liability insurance, worker's compensation insurance in the amount required by applicable law, $1,000,000 Employer's Liability Insurance (Stop Gap), and $5,000,000 Excess/Umbrella Liability Insurance, all of which shall be primary and non-contributory with any insurance carried by Landlord. Tenant's contractors' policies shall include an endorsement requiring at least 30 days' prior written notice of cancellation in coverage to Landlord and shall in all events procure and provide evidence of replacement insurance prior to any cancellation. The parties specified in the Lease shall be named as additional insureds in Tenant's contractor's insurance.

3. Tenant shall at all times keep the Premises and all other areas clear of all waste materials and refuse caused by itself, its suppliers, contractors or by their work. Tenant shall remove all waste materials and refuse directly from the Premises and shall deposit them in places or in receptacles designated by Landlord. Landlord may require Tenant to clean-up on a daily basis, and shall be entitled to clean-up at Tenant's expense if Tenant fails to comply with Landlord's reasonable requirements in this respect. At the completion of Tenant's Work, Tenant shall leave the Premises clean and to the satisfaction of Landlord and shall remove all tools, equipment and surplus materials from the Premises and the Project and remove all waste material and refuse from the Premises and deposit them in places or in receptacles designated by Landlord. The final clean-up shall include the cleaning of all lighting fixtures, millwork units, store fronts and space which may be affected by the work.

4. Landlord shall not in any way be responsible or liable with regard to any work carried out or any materials left or installed in the Premises.

5. Any damage caused by Tenant's contractor or subcontractors employed on Tenant's Work to the Project or to any property of Landlord, or of other occupants shall be repaired by Landlord's contractor to the satisfaction of Landlord at Tenant's expense.

6. If Tenant's contractor neglects to carry out the work properly or fails to perform any work required by or in accordance with the Approved Final Plans, Landlord, after 15 days written notice to Tenant and Tenant's contractor, may, without prejudice to any right or remedy Landlord may have, complete the work, remedy the default or make good any deficiencies at Tenant's expense.

7. Tenant shall be entirely responsible for the security of the Premises during construction and Landlord shall not be liable for any loss or damage suffered by Tenant.

8. Tenant shall maintain and keep on the Premises at all times during construction and the Term, a suitable portable fire extinguisher for Class A, B and C fires. Tenant acknowledges that under no circumstances is work to take place in connection with the fire sprinkler system or the fire alarm system serving the Premises or the Building without prior notice to Landlord and involvement of Landlord's building engineer, sprinkler contractor, and fire alarm contractor. Prior to any work taking place in connection with the fire sprinkler system or the fire alarm system, the fire alarm system must be properly disarmed and when the work is concluded such system shall be properly rearmed. Tenant will be charged a reasonable fee for this service.

9. Tenant shall indemnify and hold harmless Landlord from and against any and all claims arising out of work done by Tenant or its contractors and Tenant shall promptly cause to be removed any liens filed against title to the Premises or the Project, failing which, Landlord may do so and Tenant shall pay all Landlord's costs.

10. Tenant shall perform its work expeditiously and efficiently and shall complete the same within the period stipulated in the Lease or any other agreement between the parties subject only to circumstances over which Tenant has no control and which by the exercise of due diligence could not have been avoided.

11. Tenant shall not cause any disruption to other tenants of the Project.

E. CONSTRUCTION OF TENANT'S WORK

Tenant will, at its expense and subject to the provisions of this Exhibit C, provide, furnish and install within the Premises all finishings, fixtures, electrical and mechanical work set forth in the Approved Final Plans and otherwise needed to complete the Premises and to equip the Premises ready for occupation. Although dimensions and drawings may be provided by Landlord or its agents for Tenant's use in preparing plans and specifications, such information may contain inaccuracies. Tenant is responsible for confirming all dimensions and Landlord shall have no liability for any discrepancies, errors or omissions in the information provided to Tenant for design, planning and completion of Tenant's Work. All designers employed by Tenant shall become familiar with all plans and drawings to the extent necessary to complete the required architectural, mechanical and electrical working drawings and specifications.

Specific Restrictions.

(a) Under no circumstances shall Tenant or its contractor at any time be permitted to drill or cut conduit, pipe sleeves, chases, duct equipment, openings in the floor, columns, walls or roofs of the Project. Any work of this type required by Tenant shall be authorized by the Landlord's architect and performed by Landlord's contractor at Tenant's expense.

(b) No suspended loads will be permitted from the underside of the structure slab or roof structure without written approval by Landlord.

(c) Tenant will not be permitted to install openings, signs, and/or improvements in the exterior walls or interior demising partitions or bulkheads above the Premises for any purpose without the prior written approval of Landlord.

(d) Arrangements for the storage and removal of perishable garbage must be provided to the satisfaction of Landlord.

(e) Mounting of burglar alarms and signal systems on the exterior walls of the Premises or the building requires specific prior consent.

Tenant shall obtain from all contractors and subcontractors providing material and labor in the construction of Tenant's Work all commercially reasonable warranties (including manufacturers' warranties) for materials or labor as are available from such contractors or subcontractors. Such warranties shall run to Tenant during the Term and thereafter to Landlord. Tenant shall provide copies of such warranties to Landlord upon request.

Upon completion of Tenant's Work, Tenant shall provide Landlord with all of the following: 1) a full set of as-built construction documents depicting the Tenant Improvements as they are actually built; (2) an affidavit of Tenant's general contractor indicating (A) Tenant's Work has been completed, (B) Tenant's Work was completed in strict accordance with the Approved Final Plans (subject to minor deviations and Landlord approved change orders), and (C) all subcontractors, laborers and material suppliers have been paid in full; (3) final unconditional lien releases from Tenant's general contractor, subcontractors, suppliers and materialmen; (4) a copy of a temporary or permanent Certificate of Occupancy; and (5) a copy of the completion notice.

F. SECURITY.

Tenant must obtain Landlord's specific approval of any security system installed in the Premises by Tenant and Tenant shall be responsible for all maintenance and repair of any such systems.

G. ALLOWANCE.

Tenant shall be reimbursed up to the amount of the TI Allowance and the Additional Allowance for Landlord approved Tenant Work in accordance with Section 4 of the Rider attached to this Lease. If Tenant has not used the TI Allowance and the Additional Allowance and requested reimbursement (along with all documentation required to be provided along with such request, if any) in accordance with Section 4 of the Rider to this Lease within twelve (12) months after the Commencement Date, Tenant waives its right to the same and the TI Allowance and the Additional Allowance will be retained by Landlord.

H. DEFAULTS DURING CONSTRUCTION.

If Tenant does not comply with the provisions of this Exhibit C within any applicable notice and cure period (unless otherwise specified, the Cure Period shall be 30 days from written notice from Landlord), Landlord, in addition to and not in lieu of any other rights or remedies, shall have the right to exercise any right available under the provisions of the Lease, including the right of termination. In any event of termination pursuant to the above provision, Landlord may further elect either to:

1. retain for its own use, without payment therefore, all or any of Tenant's Work which has been commenced, installed or completed to the date of such termination; or

2. forthwith demolish or remove all or any of Tenant's Work and restore the Premises to the condition in which the same were prior to the commencement, installation or completion of all of such Tenant's Work as is so demolished or removed and recover the cost of so doing from Tenant.

EXHIBIT D

RULES AND REGULATIONS

1. Tenant, its servants, employees, customers, invitees, and guests shall not obstruct, or use for any purpose other than for ingress and egress to and from the Premises, the sidewalks, halls, passages, elevators, stairways, exits and entrances of the Building which are used in common with other tenants and their servants, employees, customers, guests, and invitees, and which are not a part of the Premises of Tenant. The halls, passages, exits, entrances, elevators, retail arcade, escalators, balconies and stairways are not for the use of the general public, and Landlord shall in all cases retain the right to control and prevent access to those areas by all persons whose presence in the judgment of Landlord would be prejudicial to the safety, character, reputation and interests of the Building and its tenants, provided that nothing in this Lease shall be construed to prevent access to persons with whom Tenant normally deals in the ordinary course of its business, unless those persons are engaged in illegal activities. Tenant shall not go upon the roof of the Building for any reason except to perform work on Tenant's communications equipment, if any, and then only when accompanied by Landlord or Landlord's Property manager or Building engineer.

2. The Premises shall not be used for lodging or sleeping. Unless ancillary to a restaurant or other food service use specifically authorized in Tenant's Lease, no cooking shall be done or permitted by Tenant on the Premises, except that the preparation of hot beverages and use of microwave ovens for Tenant and its employees shall be permitted. No animals of any kind shall be permitted at the Building except as may be required by applicable law. Tenant shall notify Landlord the presence of any animal in the Premises. Tenant shall be responsible for (i) complying with all applicable laws regarding the presence of an animal in the Premises, (ii) insuring that any animal brought into the Premises is under the full, direct control of the person bringing such animal into the Premises at all times while in the Building, (iii) cleaning up all animal waste and properly disposing of such waste in a sealed container in restroom trash receptacles or outside the Building, (iv) all damage to persons and property arising out of the presence of any animal brought by Tenant, or its agents or invitees, into the Building. To the fullest extent permitted by law, Landlord may require (a) verification of the right of an animal to be present in the Building under applicable law and (b) the removal of any animal in the Building. Tenant assumes full responsibility for, and shall indemnify and hold harmless Landlord from and against all liability, damages, and claims arising out of, any animal brought into the Building by it, or its employees, agents or invitees.

3. Landlord shall provide at no cost to Tenant up to thirty (30) keys to the Premises; all additional or lost keys shall be at Tenant's expense. Tenant may not install any additional locks in the Premises without Landlord's prior consent, and all such locks must be keyed to the Building's master system. Tenant shall not alter any lock or install a new or additional lock or any bolt on any door of the Premises, which Landlord requires access to without furnishing Landlord with a key for any lock and obtaining Landlord's prior permission. Tenant, upon the termination of its tenancy, shall deliver to Landlord all keys and/or security cards to doors in the Building and the Premises that shall have been furnished to Tenant and in the event of loss of any keys and/or security cards so furnished, shall pay Landlord for the lost keys and/or security cards and changing of locks as a result of such loss.

4. The persons employed by Tenant to move equipment or other items in or out of the Building must be acceptable to Landlord. Landlord shall have the right to prescribe the weight, size and position of all equipment, materials, supplies, furniture or other property brought into the Building. No safes or other objects larger or heavier than the elevator of the Building is limited to carry shall be brought into or installed on the Premises without Landlord's prior written consent. Landlord may determine the locations for safes and other heavy equipment or items in the Premises, which shall in all cases be placed in the Building so as to distribute weight in a manner acceptable to Landlord which may include the use of such supporting devices as Landlord may require. Tenant shall reimburse Landlord for reasonable costs associated with review and analysis by a structural engineer and/or other appropriate consultant with regard to determination of locations for safes and other heavy equipment or items. Landlord will not be responsible for loss of or damage to any property from any cause, and all damage done to the Building or to property of other Building tenants by moving or maintaining Tenant's property shall be repaired at the expense of Tenant. The moving of heavy objects shall occur only between those hours as may be designated by, and only upon written notice to, Landlord and the persons employed to move heavy objects in or out of the Building must be acceptable to Landlord.

5. Tenant shall not use, bring into, or keep in the Premises or the Building any firearms, kerosene, gasoline or flammable or combustible fluid or materials, or any other article of an intrinsically dangerous nature, or use any method of heating or air conditioning other than that permitted in writing by Landlord. Tenant shall not sweep or throw or permit to be swept or thrown from the Premises any debris or other substance into any of the corridors, halls or lobbies or out of the doors or windows or into the stairways of the Building and Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises. Tenant shall not use, keep or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Building by reason of noise, odors and/or vibrations, or interfere in any way with other tenants or those having business in the Building. If, in Landlord's reasonable judgment, any of Tenant's equipment or fixtures cause vibrations, Landlord may require that Tenant add appropriate vibration damping materials as necessary to eliminate such vibration. Tenant shall reimburse Landlord for reasonable costs associated with review and analysis by a structural engineer and/or other appropriate consultant with regard to such vibrations.

6. During times other than Normal Building Hours and on holidays as designated by the Landlord, access to the Building, or to the halls, corridors or stairways in the Building, or to the Premises, may be refused unless the person seeking access is known to the Building and has a pass or is properly identified. Landlord shall in no case be liable for damages for the admission to or exclusion from the Building of any person whom Landlord has the right to exclude under Rule 1 above. In case of invasion, mob, riot, public excitement or other circumstances rendering that action advisable in Landlord's opinion, Landlord reserves the right to prevent access to the Building during the continuance of that activity by taking those actions that Landlord may deem appropriate, including closing entrances to the Building. Any person, whose presence in the Building at any time shall in the sole judgment of Landlord, be prejudicial to the safety, character, reputation and interests of the Building or its Tenants may be denied access to the Building or may be ejected there from. Landlord may require any persons leaving the Building with any package or other object to exhibit a pass from Tenant from whose premises the package or object is being removed, but the establishment and enforcement of such requirement shall not impose any responsibility on Landlord for the protection of any Tenant against the removal of property from the Premises of Tenant.

7. Tenant shall close and securely lock the doors to the Premises when Tenant's employees leave the Premises and after Normal Building Hours.

8. The toilet rooms, toilets, urinals, wash bowls, sinks, and other apparatus shall not be used for any purpose other than that for which they were designed or constructed, no foreign substance of any kind whatsoever shall be deposited in any of them, and any damage resulting to them from Tenant's misuse shall be paid for by Tenant.

9. Except with the prior written consent of Landlord, Tenant shall not sell, or permit the sale from the Premises of newspapers, magazines, periodicals, theatre tickets or any other goods, merchandise or service, nor shall Tenant carry on, or permit or allow any employee or other person to carry on, business in or from the Premises for the service or accommodation of occupants of any other portion of the Building, nor shall the Premises be used for manufacturing of any kind, or for any business or activity other than that specifically provided for in Tenant's Lease. No Tenant shall obtain for use upon the Premises ice, towel and other similar services, or accept barbering or shoe polishing services in the Premises, except from persons authorized by Landlord and at hours and under regulations fixed by Landlord.

10. Tenant shall not install any radio or television antenna, loudspeaker or other device on the roof or exterior walls of the Building.

11. Tenant shall not use in any space, or in the Common Areas of the Building, any handtrucks except those equipped with rubber tires and side guards or other material handling equipment as Landlord may approve. Tenant, and its employees, may walk bicycles into the Premises but Tenant shall be responsible for all damage caused by any such bicycle. No other vehicles of any kind shall be brought by Tenant into the Building or kept in or about the Premises, except as may be required by law.

12. No sign, advertisement or notice visible from the exterior of the Premises shall be inscribed, painted or affixed by Tenant on any part of the Building or the Premises without the prior written consent of Landlord. If Landlord shall have consented at any time, whether before or after the execution of this Lease, that consent shall in no way operate as a waiver or release of any of the provisions of this Rule 12 or of this Lease, and shall be deemed to relate only to the particular sign, advertisement or notice so consented to by Landlord and shall not be construed as dispensing with the necessity of obtaining the specific written consent of Landlord with respect to each and every such sign, advertisement or notice other than the particular sign, advertisement or notice, as the case may be, so consented to by Landlord. All signs shall comply with the requirements of the Building's Sign Criteria.

13. Except as shown in the design plan approved by Landlord, the sashes, sash doors, windows, glass relites, and any lights or skylights that reflect or admit light into the halls or other places of the Building shall not be covered or obstructed and there shall be no hanging plants or other similar objects in the immediate vicinity of the windows or placed upon the window sills or hung from the window heads. Tenant shall not use any blinds, shades, awnings, or screens in connection with any window or door of the Premises unless approved in writing by Landlord. Tenant shall not use any drape or window covering facing any exterior glass surface other than the standard drape established by Landlord.

14. No tenant shall lay linoleum or other similar floor covering so that it is affixed to the floor of the Premises in any manner except by a paste, or other material which may easily be removed with water, the use of cement or other similar adhesive materials being expressly prohibited. The method of affixing any linoleum or other similar floor covering to the floor, as well as the method of affixing carpets or rugs to the Premises, shall be subject to prior written approval by Landlord. The expense of repairing any damage resulting from a violation of this Rule 14 shall be borne by the Tenant by whom, or by whose agents, clerks, employees or visitors, the damage shall have been caused.

15. Tenant shall not overload the floor of the Premises. Tenant shall not mark or paint, or drive nails, screw, drill, or make any other penetration of any kind into, the partitions, woodwork, exposed brick surfaces, structural timbers (including without limitation columns, beams, and joists), or plaster, or in any way deface, the Premises or Building, or any part thereof.

16. Tenant shall not employ any person or persons other than the janitor of Landlord for the purpose of cleaning the Premises unless otherwise agreed to by Landlord. Except with the written consent of Landlord no person or persons other than those approved by Landlord shall be permitted to enter the Building for the purpose of cleaning the same. Tenant shall cooperate with Landlord's Building maintenance and cleaning personnel in keeping its Premises neat and clean and shall not cause any unnecessary labor by reason of Tenant's carelessness or indifference in the preservation of good order and cleanliness. Landlord shall not be responsible under any circumstances to any Tenant for any loss or theft of property from the Premises, Building or Project, however occurring, or for any damage done to the effects of any Tenant by the janitor or any other employee or any other person. Tenant assumes full responsibility for protecting its Premises from theft, robbery, and pilferage, which includes keeping doors locked and other means of entry to the Premises closed and secured after Normal Building Hours.

17. All loading, unloading, and delivery of merchandise, supplies, materials and furniture to the Premises shall be made during reasonable hours and in entryways and elevators as Landlord shall designate. In its use of the loading areas on the first basement floor, Tenant shall not obstruct or permit the obstruction of loading areas, and at no time shall Tenant park vehicles in the loading areas except for loading and unloading.

18. Canvassing, soliciting, peddling or distribution of handbills or any other written material in the Building is prohibited and Tenant shall cooperate to prevent these activities.

19. Tenant shall not permit the use or the operation of any coin operated machines on the Premises, including, without limitation, vending machines, video games, pinball machines, or pay telephones without the prior written consent of Landlord.

20. Landlord may direct the use of all pest extermination and scavenger contractors throughout the Building and/or Premises at intervals as Landlord may require.

21. If Tenant desires telephone or telegraph connections, Landlord will direct service technicians as to where and how the wires are to be introduced. No boring or cutting for wires or otherwise shall be made without directions from Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord.

22. Tenant shall not waste electricity, water, or air conditioning and shall cooperate fully with Landlord to insure the most effective operation of the Building's heating and air conditioning systems, and shall refrain from attempting to adjust any controls other than unlocked room thermostats, if any, installed for Tenant's use. Tenant shall immediately, upon request from Landlord (which request need not be in writing), reduce its lighting in the Premises for temporary periods designated by Landlord, when required in Landlord's judgment to prevent overloads of mechanical or electrical systems of the Building. Tenant shall observe strict care and caution that all water faucets or water apparatus are entirely shut off before Tenant or Tenant's employees leave the Building, and that all electricity, gas or air shall likewise be carefully shut off, so as to prevent waste or damage, and for any default or carelessness.

23. Landlord reserves the right to select the name of the Building and to change the name as it may deem appropriate from time to time, and Tenant shall not refer to the Building by any name other than: (a) the names as selected by Landlord (as that name may be changed from time to time), or (b) the postal address, approved by the United States Post Office. Tenant shall not use the name of the Building in any respect other than as an address of its operation in the Building without the prior written consent of Landlord.

24. The requirements of Tenant will be attended to only upon application by telephone or in person at the office of the Building manager. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instruction from Landlord.

25. Tenant acknowledges that the Building is a "no smoking" building and Tenant shall cause its employees, contractors, and invitees to observe all local, state, and federal laws, codes, and ordinances in connection with any use of tobacco products in and around the Building.

26. No tenant may enter into electrical rooms, mechanical rooms, or other service areas of the Building unless accompanied by Landlord or Landlord's property manager or Building engineer.

27. No new electric panels or transformers for any purpose shall be brought into the Premises without Landlord's written permission specifying the manner in which same may be done.

26. Landlord may waive any one or more of the Rules and Regulations for the benefit of any particular tenant or tenants, but no waiver by Landlord shall be construed as a waiver of the Rules and Regulations in favor of any other tenant or tenants, nor prevent Landlord from thereafter enforcing any Rules and Regulations against any or all of the tenants in the Building.

27. Wherever the word "Tenant" occurs in these Rules and Regulations, it is understood and agreed that it shall mean Tenant's assigns, subtenants, associates, agents, clerks, employees, invitees, and visitors. Wherever the word "Landlord" occurs in these Rules and Regulations, it is understood and agreed that it shall mean Landlord's assigns, agents, clerks, employees and visitors.

28. These Rules and Regulations are in addition to, and shall not be construed in any way to modify, alter or amend, in whole or part, the terms, covenants, agreements and conditions of any Lease of Premises in the Building. Landlord shall have the right to reasonably and non-discriminatorily modify the foregoing Rules and Regulations and add new Rules and Regulations from time to time, which such new or modified Rules and Regulations shall become effective thirty (30) days after delivery thereof to Tenant.

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

The following is a list of subsidiaries of the registrant as of December 31, 2020.

Name	Jurisdiction of incorporation or organization
BSQUARE KK	Japan
BSQUARE EMEA Limited	United Kingdom

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements of Form S-8 (Nos. 333-230726, 333-89333, 333-70210, 333-114104, 333-116279, 333-162925, 333-166804, 333-172904, 333-183668, 333-183667, 333-205706, 333-205707, 333-215095 and 333-219799) of Bsquare Corporation of our report dated March 18, 2021, relating to the consolidated financial statements of Bsquare Corporation (which report expresses an unqualified) appearing in this Annual Report on Form 10-K for the year ended December 31, 2020.

/s/ Moss Adams LLP

Seattle, Washington
March 18, 2021

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13(a)-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Ralph C. Derrickson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Bsquare Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 18, 2021

/s/ Ralph C. Derrickson
Ralph C. Derrickson
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13(a)-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Christopher Wheaton, certify that:

1. I have reviewed this Annual Report on Form 10-K of Bsquare Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 18, 2021

/s/ Christopher Wheaton

Christopher Wheaton

Chief Financial and Operating Officer, Secretary and Treasurer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Ralph C. Derrickson, President and Chief Executive Officer, certify that:

1. To my knowledge, this report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. To my knowledge, the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Bsquare Corporation.

Dated: March 18, 2021

/s/ Ralph C. Derrickson
Ralph C. Derrickson
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, Christopher Wheaton, Chief Financial Officer, Secretary and Treasurer, certify that:

1. To my knowledge, this report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. To my knowledge, the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Bsquare Corporation.

Dated: March 18, 2021

/s/ Christopher Wheaton
Christopher Wheaton
Chief Financial and Operating Officer, Secretary and Treasurer

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DIRECTORS, OFFICERS AND CORPORATE INFORMATION

DIRECTORS

Andrew S.G. Harries
Chairman of the Board
Co-Founder, Sierra Wireless (SWIR) and
Zeugma Systems Inc.,
Chair, Contractually, acquired by Coupa Software
(COUP)

Ralph C. Derrickson
President and Chief Executive Officer,
Bsquare Corporation

Robert J. Chamberlain
Chief Financial Officer, Zipwhip

Davin W. Cushman
Chief Executive Officer, Brightrose Software

Mary Jesse
Chief Executive Officer, MTI

Robert J. Peters
Principal, Palogic Value Management, L.P.

Ryan L. Vardeman
Principal, Palogic Value Management, L.P.

EXECUTIVE OFFICERS

Ralph C. Derrickson
President and Chief Executive Officer

Christopher Wheaton
Chief Financial and Operating Officer, Secretary
and Treasurer

MAJOR GLOBAL OFFICE LOCATIONS

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1415 Western Avenue, Suite 700
Seattle, WA 98104
Tel: (425) 519-5900
Fax: (425) 519-5999
www.bsquare.com

United Kingdom
County Gate County Way
Trowbridge, Wiltshire BA14 7FJ United Kingdom
Tel: 44-1225-710600
Fax: 44-1225-710601

CORPORATE COUNSEL

DLA Piper LLP
Seattle, Washington

INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Moss Adams LLP
Seattle, Washington

TRANSFER AGENT AND REGISTRAR

Broadridge Financial Solutions, Inc.
51 Mercedes Way, Edgewood, NY 11717
Shareholder Toll-Free: 1-877-830-4936
Shareholder Toll: 720-378-5591

ANNUAL MEETING

Our annual meeting of shareholders will be on Thursday, June 10, 2021 at 10:00 a.m. local time at the Company's headquarters, 1415 Western Avenue, Suite 700, Seattle, Washington 98101

FORM 10-K

We file an Annual Report on Form 10-K with the Securities and Exchange Commission. Copies are available without charge upon request. Requests should be sent to investorrelations@bsquare.com

STOCK EXCHANGE LISTING

Our common stock is traded on the Nasdaq Capital Market under the symbol BSQR.

DIVIDENDS

We have never paid cash dividends on our common stock. We currently intend to retain any future earnings to fund the development and growth of our business and, therefore, we do not anticipate paying any cash dividends in the foreseeable future

.

This annual report contains forward-looking statements based on current expectations, estimates and projections about our industry and our management's beliefs and assumptions. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that are difficult to predict. Please refer to the information set forth under the captions "Risk Factors" and "Forward-Looking Statements" in our Annual Report on Form 10-K and other reports or documents that we file from time to time with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on the forward- looking statements, which speak only as of the date made, and except as required by law, we undertake no obligation to update any forward-looking statement.

BSQUARE