

The PC Network Services State of the Company – 2015

Thank You

Welcome to the PC Network Services 2015 State of the Company Letter. This is the 12th annual State of the Company Letter (SOTCL) and it comes as we celebrate our 25th anniversary as a company. For those new to the PCNS family, the SOTCL was initially conceived by Peter Briden in an airport back in 2004 while watching the President's annual State of the Union Address. Peter put pen to paper, and a tradition was born.

This year the tradition changes a little. This is the first SOTCL that is NOT written by Peter Briden. It is also our first formal company update since we announced our major organizational change last spring – my introduction as the new CEO of PCNS. Certainly a lot has happened since then, and we are excited to share this update. The SOTCL has always focused on reflection on the past and anticipation of the future, and this year's edition is no different.

In business, you are either moving forward or you are moving backward – there is no standing still. In recent years, as PCNS' growth curve slowed, it became clear that our ability to keep our business moving forward would entail some changes. As Peter Briden put it, "What got us here won't get us there". That is why, in last year's SOTCL, the first goal for 2014 that Peter listed was to increase the capabilities and capacity of our management team.

This year's SOTCL is delivered as we transition from a year where the theme was "Stabilize, Lay the Foundation – and Don't Break It" to a new year where the theme is "Mature, Scale, and Grow – and Don't Break It." We will share the progress we made in 2014 and the challenges we are excited to tackle in 2015. We would be remiss if we didn't first honor an important SOTCL tradition and begin with a huge **Thank You** to the people who give us our purpose:

- To our clients for giving us the opportunity to perform every day while doing what we love
- To our employees for their dedication and commitment to our clients and to our company
- To the many friends, suppliers, peers and others whose wisdom, cooperation, and support are an important part of our world

On a very personal note, I also want to offer a few additional Thank Yous. First, to Peter and Kathy Briden both for the tremendous faith they put in me by entrusting me with this organization they so masterfully built, and for their friendship and wisdom, which continue to guide me every day. Second, I want to thank the third member of the team who built this great company and my continuing partner in this endeavor, Clint Laviano, for his ongoing friendship and support as we continue this journey together.

Regards,

Michael Halperin
CEO, PC Network Services

State of the Industry

As we look across the IT industry, two interconnected themes dominate the landscape: Security and the Cloud.

There is no way to sugarcoat it – 2014 was a brutal year for security, and it was a windfall for the bad guys. New threat vectors emerged, new attack techniques were developed and published for mass consumption, and high profile incidents occurred with such regularity that breaches that would have made big headlines a couple years ago passed by with barely a notice. Clearly, the bad guys have the upper hand.

Malware is now a multi-billion dollar industry, and hackers have shifted from lone wolves to organized businesses with scale. In late 2013, the industry saw the emergence of a new form of malware called “ransomware”. This is an attack that encrypts user data and then presents a “limited time offer” to buy the decryption key from the hackers. If the ransom isn’t paid, the hackers delete the key and the data is lost forever (unless you have a good backup). Most ransomware is distributed via “social engineering” such as a phony email that entices a user to click on a link that loads the malware. In 2015 we expect an increase in the number, creativity, and sophistication of these attacks. We also expect the ransom fees – which typically have been in the hundreds of dollars – to increase substantially.

Another new technique that saw an alarming increase in 2014 is the targeted attack. Traditional hacks are distributed widely in the hopes of finding any network with a specific vulnerability. Targeted attacks, on the other hand, are carefully and insidiously designed social engineering ploys that target a specific individual or organization, with a specific goal in mind. In some cases the specific goal may be extortion, as hackers steal sensitive or embarrassing information and extort payment (which may be in the tens of thousands of dollars or higher), threatening widespread distribution of the stolen information if the extortion terms are not met. We expect an increase in extortion attacks in 2015.

All these social engineering approaches have a common theme. If an organization has a solid, thoughtful, multi-layered security profile, the weak link in the equation becomes the End-User. No amount of money can buy total protection, and each organization needs to determine where to draw the line. Raising End-User awareness of the dangerous world we live in – and how to avoid clicking on the wrong thing – is our rear guard against the most dangerous attacks. In a world where targeted attacks become increasingly common and effective, End-User vigilance becomes absolutely critical.

The second big trend is broadening adoption of the cloud. Industry analysts commonly state that 90% of organizations are using the cloud to some degree. Given the prevalence of Software as a Service (SaaS), cloud-based backup tools, cloud-based email filtering, and other very common cloud apps, one wonders what the other 10% are doing! However, as organizations look at the cloud, it is also important that they understand what the cloud is, and what it isn’t. There are many flavors to the cloud. Some – like SaaS and cloud-based backup – are seeing massive adoption, for good reason. Others, like “Infrastructure as a Service” (migrating servers, storage and desktops to the cloud), are more niche-oriented capabilities with benefits and risks that are more nuanced.

The danger emerges when organizations don’t understand where a flavor of cloud fits and where it doesn’t, and adopt the wrong flavor cloud for the wrong reasons. As always, it is important for organizations to be thoughtful and disciplined when making IT decisions. Cloud has many benefits, and the time to consider whether/where the cloud fits is in preparation for a hardware or software lifecycle event (e.g. when an existing server approaches End of Life). Cloud can be very powerful, but the cloud is NOT a solution to bad IT. The solution to bad IT is good IT.

The State of PC Network Services

Certainly 2014 was an eventful year for PC Network Services. The most significant event was the introduction of Michael as PCNS' new CEO in April. We also brought on board a new Controller and a new Manager of Human Resources. We empowered a first-line management team for the first time in the history of our company. We were able to build our technical capacity, bringing on board new talent to our Help Desk, Integration and Shop teams. Today, all three teams are at higher staff levels than any time in our history, and total staffing is also at an all-time high. We were successful in making these investments while maintaining both operational efficiency and service quality. In fact, we continue to operate above industry benchmarks in a variety of key productivity metrics.

We are investing not just in bringing new talent on board, but also in helping that talent to grow. This is key to retaining our best talent, an area where we improved markedly over the course of 2014 (most of the new PCNS staff you met in 2014 are new positions, not replacements). In 2014, we instituted better on-boarding processes for new hires, including cross-functional rotations so everyone on our technical teams understands how the other functions in our business work. We established a staff development program – we call it “The Ladder” – that allows our technical staff to control their own destiny in envisioning and realizing their career path within PCNS. We launched a new education policy that allows our company to invest up to \$1,000 a year on each staff member's development. What it all means is delivering greater breadth and depth of expertise to our customers, greater flexibility and capacity for our operations, and outstanding career opportunities for our team. We will continue looking for top talent throughout 2015, so if you know someone you think would be a good mutual fit with our team we'd love to meet them!

We have established a marketing function for the first time in our history and are in the midst of our first-ever lead generation campaign (if you know someone who is feeling IT discomfort, we'd really appreciate an introduction to see if we can help). We are sourcing for our first-ever sales resource to help us ensure we utilize the capacity we have built – even as we continue to source for additional talent. As our talent and capacity continue to build, we look forward to increasing specialization of our resources. This will further increase our efficiency and responsiveness to our existing clients.

One question I am frequently asked is about Peter Briden's status with PC Network Services. Peter continues as an owner of PCNS and as a member of our Board of Directors. He also continues as an important advisor, confidante, and friend to Clint and me. After 25 years, Peter has decided to dramatically reduce his day-to-day involvement in the business. Clint and I have assumed the duties Peter previously performed. You should feel free to reach out to either Clint or me with any questions, issues, or feedback that you previously would have steered Peter's way.

We made some positive operational changes in 2014, particularly with the Help Desk. Nearly 70% of the inbound calls PCNS receives every day are targeted for the Help Desk, yet a large percentage of the inbound calls were traditionally answered by non-Help Desk staff. That led to inefficiencies in call transfer that could be frustrating for our customers. In June, we added several talented young techs to our Help Desk, with the goal of making the Help Desk wholly self-sufficient. That includes transitioning first-call answering responsibility to the Help Desk. We also trained our most junior staff to resolve “the Easy Eight” – the most common issues the Help Desk receives. This will dramatically increase the number of calls we are able to resolve on the first call to the Help Desk.

Finally, in 2014 we implemented some measures to better understand what we are doing well and what we could do better. Most significantly, we launched in November our first Client Loyalty Survey to capture feedback directly from our clients on how we are doing (The survey is sent quarterly, with 25% of all recipients receiving it each quarter. Many thanks to the recipients of the November group who took the time to respond!). Already, the survey has paid dividends. For instance, one consistent point of feedback is that – while clients are generally happy with the level of support the Help Desk provides – they are often frustrated with the amount of time that passes before they can get a technician on the line to resolve their issue. As a result of that feedback we are working to streamline the Help Desk process to increase our responsiveness and reduce “phone tag” with our clients.

One final request...if, as we go through some of the changes we need to make as a business, you see anything that does not align with who we are, or if you see unintended consequences of our actions, we need to know! Please do not hesitate to contact me – I will be most grateful.

PCNS – 2014 in Review: Our Accomplishments

In the 2014 State of the Company Letter, we highlighted some specific goals and areas of focus. Here’s how we did against these objectives:

Management Team – In addition to Michael joining PCNS as CEO, we added Jim Luffy as our Controller and Ginny O’Hare as our Manager of HR. We also began build-out of a first-tier of management, including Brian Bahr as our new Project Manager, Jason Blando as our new Help Desk Manager, and expanding Jeremy Nusser’s role in managing the Shop. This talented management team provides us an outstanding foundation for continued optimization of our delivery processes.

More Security – Security was a critical conversation as we started 2014, and it became increasingly important over the course of the year. We made progress across many of our clients on two of our 2014 initiatives: enforcing better password policies and isolating guest vs. private wireless networks. We strongly advocated more stringent policies for business vs. personal IT usage, and many clients made progress. Another focus was Bring Your Own Device (BYOD), and we made some progress here, particularly in helping organizations build a profile for more responsible isolation of “untrusted endpoints” and in establishing responsible usage standards. We made less progress in Mobile Device Management (MDM) and Data Loss Prevention as those dynamic spaces continue to mature. We are very much looking forward to the emergence of market leaders in MDM and hope to bring a specific MDM offer to market in 2015.

New Alert Management System – We continued to refine our best-in-class monitoring tools and implemented a new alert management system to consolidate alerts. The Help Desk is continually improving its use of our monitoring tools, both in proactively identifying new issues and as a data source for troubleshooting and isolating ongoing issues. We also increased the amount of time our Help Desk techs spend tracking and responding to alerts from our monitoring systems.

Installation/Move/Add/Change (IMAC) & Help Desk Call Handling – We made a number of changes in streamlining our Help Desk processes overall, including the call flow changes described above. We also made progress increasing our consistency in performing IMAC functions. In fact, IMACs are included in the aforementioned “Easy Eight” that are part of our recent Help Desk optimization.

Looking Ahead with PCNS: What to Expect in 2015

Continued Focus on Security Layers – While we believe that the depth, consistency, and effectiveness of the baseline security profile we provide to all our clients is Best-in-Class in our industry, we can't stand still. In 2015 we will add more layers to our security posture including two-factor authentication, better segregation of trusted and un-trusted endpoints, improved web usage reporting, increased use of Remote Desktop, and other measures. We also will accelerate migration of Anti-Virus from Vipre to BitDefender, which we believe is more robust and an easier-to-manage platform. Stay tuned for more about these developments as we meet with you in our Technology Review Meetings over the course of 2015.

Continued Focus on Security Education and Policies – Earlier, we stated that when an organization has a strong security posture, End-User behavior becomes the weak link. In 2014, we introduced our KnowBe4 Internet Security Awareness Training (iSAT), and about 2/3 of PCNS clients went through that program. In 2015, we will offer an updated version of the iSAT training. Expect us to push hard to have all clients (including those who went through the training in 2014) put all staff through this training, which has proven to significantly improve End-User behavior regarding internet security. Also expect us to continue discussing how security policies such as increased password complexity, mandatory password expiration, and restricting End-User local admin rights can help you improve your security profile.

Microsoft End of Life Systems – We announced in last year's SOTCL that Microsoft was ending support for XP and the 2003 family of products. Most of our clients retired all or the vast majority of XP and '03 machines by the end of 2014, though some clients continue to have obsolete systems in production. Over the course of 2015, we need to retire the remaining devices, as they present a security risk since Microsoft no longer offers patches to resolve security vulnerabilities on those systems. Migration from obsolete platforms is also important as we prepare for the next generation of Microsoft products, Exchange 2015 and Windows 10.

General Steadiness on Pricing – One question we got frequently in late 2014 was whether we would be implementing across-the-board price increases in 2015. The short answer is "no". We decided to hold firm on our pricing – with a few exceptions. Specifically, we were notified by a few of our key suppliers – most significantly security partner FortiGate – of price increases heading our way. In those cases, we will have no choice but to pass those increases along to our customers. If you have a Hardware as a Service firewall (i.e., the cost of the firewall is included in your monthly fee), you should expect to be notified in Q1 of an increase in the range of \$7-10/month for each of our standard firewalls.

New Places – Some people are surprised to find that about 1/3 of our clients are more than 90 minutes from Pittsburgh. With pockets of clients in Ohio and New York, we are interested in increasing our density beyond the Pittsburgh area. Look forward to developments in 2015 that entail organic and potentially strategic extension of our geographic reach.

New Faces – We have decided that the "PC Network Services" brand (including our beloved Atlas – the "Little PCNS guy") and our web site are overdue for an update. As a first step, we launched a new web site in September and established a social media presence (check us out on LinkedIn, Facebook, Twitter, and our new Blog on our web site). This year, we will follow that up with a major re-work of our web site and our branding. Rest assured "a rose by any other name is still a rose"; we may update our look and maybe even our name, but our Core Values, our commitment to our clients, and our commitment to excellence will not change.

Continued Focus on What We Do Well – The more things change, the more they stay the same. Our culture, standards, and processes are the “special sauce” that makes PCNS a leader in our industry. In 2015, you should expect to see the same discipline, attention to detail and consistency in service delivery you have come to expect from PCNS over the years. We look forward to introducing new members of our team and watching our talented team develop. Mostly, we are excited to deliver the same level of excellence our clients have learned to expect from us.

Thank You

As always, we appreciate the opportunity to be your technology support provider. We strive hard each and every day to learn new technologies, improve our systems and processes, and increase our value to our customers. Thank you for allowing us to perform.

We appreciate the trust and confidence you place in our company and our people. As we look back on the past year we are proud of what we have accomplished, and we are excited about the possibilities 2015 brings. We anticipate many challenges in the coming year – both expected and unforeseen – and we look forward to tackling them as we always do – prudently, thoughtfully, and methodically.

Thank you for your time, your interest and – most importantly – for allowing us to be your partner. Have a GREAT 2015!

Regards,

Michael & Clint