

The Battle Plan

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The Battle Plan

“I Wish We Could Do What You Are Doing”

About six years ago I flew out and met with a company that wanted to buy Trace3. At that time, Trace3 was about \$40M in sales. The company I was meeting with was almost \$300M in sales. I sat down and met with their entire management team that day and looking back, I probably talked too much. I basically laid out my entire business plan to them and they gave me small snippets of their go to market strategy. At the time they were mainly just a storage reseller with a pretty nice service and maintenance arm.

It was clear within the first hour that our companies were vastly different. Not different in lines we sold, but different in culture. We were nimble, quick and embraced new technology and changes in the market. They had a proven model, were a public company and knew what worked... At the end of the meeting I had gotten what I wanted. I wanted to know what they were doing wrong and why they had stopped growing. That was in fact the entire reason for my visit. My only regret from that meeting was when the CEO asked me what my plans were for the future; I responded “My plans are to be bigger than your company in 5 years.” That got a good chuckle from his team. I regret it because it was an arrogant thing to say. It is so important to stay humble. I also really liked the CEO and should not have said it because he was having a difficult time growing his company.

When we walked out to the parking lot he stopped me and said, “Hayes, I am so impressed with what you and your team have built at Trace3. You are doing so many things the right way. If I were to start over, I would do it exactly like you

are doing it. I wish [our company] could do what you are doing.” I thanked him, got in my rental car, and as I drove away I thought to myself *what a stupid thing to say*. Why the hell would you ever look at a better business model and not move towards it. Today that company is roughly \$400M in sales and Trace3 is \$300M. I now understand, running a company this size, why he said what he said. Getting larger organizations to embrace a paradigm shift in the market can be very difficult. As the leader you must explain the “Why” over and over and over till you are blue in the face. There must be education and re-alignment. There must be new divisions and additional risk to the business.

There is even a strong chance you will have to begin to cannibalize some of your best revenue streams. Getting the sales organization to do that can at times almost seem impossible.

I vowed to be a CEO that would never utter the statement, “I wish I could do what you are doing” in reference to a business model. Ignoring a paradigm shift in the business landscape is the fastest way to irrelevance.

Trace3 has been vigilant in evaluating the market and navigating the shifts. We have begun to change the organization years in advance so we could do it at a pace that employees, vendors and clients (our three real clients) could digest it. We are ready for the paradigm shift in IT we are all beginning to face.

The Battle Within

*In the clearing stands a boxer
And a fighter by his trade
And he carries the reminders
Of ev'ry glove that layed him down
Or cut him till he cried out
In his anger and his shame
"I am leaving, I am leaving"
But the fighter still remains*

Lyrics from "The Boxer" by Simon and Garfunkel

I have always loved this song. I love it because of the stanza above. I have thought for many years that it was referring to two people – A Boxer and A Fighter. I always thought they stood in the clearing and battled it out till the Fighter, for all the reasons described, stands tall and perseveres. This morning, deep in thought as I listened, I decided I might be wrong. What if it was the “will” of the Fighter that overcame the failures and fears of the Boxer? Odd as it may sound, that sent me into a tailspin of thought. Could this entire war have been fought from within? Is this the war that freed the man to attach his will to his training and move forward to conquer? Why is this so relevant to me in this moment that I want to pull over my car and start writing the book for Trace3 that I have waited over 12 months to write?

It is because, in my opinion, the song is about a defining moment. It is about will overcoming training. It is about heart outlasting the mind. It is about what I love. I love the power of the individual who has passion enough to fight and overcome his past. I wonder about the moments that led up to this final confrontation where the Fighter prevailed....

You see, I think the market conditions over the last four years have led us to a moment such as this. It is the point in

time in which Trace3, our clients and many of our vendors are standing - deciding what to believe and which way to go. But before we can choose a direction, we must come to that “clearing” and decide who we are going to be. Notice I did not say, who we *want* to be. Many of us were trained to want to be what the paradigm shift may no longer value. We might not be able to rely solely on our training going forward. We might need to rely on our will to see us through the changes in front of us.

I believe what we face can only be described as a war. It will be a war that will take many turns and have many battles. The first battle that is upon us now will be the most crucial and important for the Fighter to win. It is the battle for dominion over us. It is the fight to concede that the industry’s landscape is changing right before us. It is a battle in which we must not bury our heads in the sand and ignore that Amazon, RackSpace, SaaS, PaaS, IaaS, and everything in between are going to change our world. They will change Trace3’s ability to thrive unless we adapt. They will change our partner’s client base drastically over time. They will challenge IT organizations all over the world to stay relevant to the businesses they serve. **The first battle, which has begun, is a battle within.** We are used to selling and consuming in certain way. We will need to be more open. More open to looking at new technology. More open to educating our people with an intelligent end state in mind. More open to the fact that we must get our staff closer to the needs of the business, applications and how we affect top and bottom line growth.

I am excited to fight.

I know so many competitors will bury their heads and that means an opportunity for Trace3 and our clients like we have not seen since the company’s inception. To willingly adapt

and invest in the new landscape is what will create our path to greatness.

This book is not a playbook. The past playbooks are very close to my heart in so many ways. The principles and values of the past books hold true as we move forward, but our tactics and offerings will need to shift over the next three years. The war is here. This book is our first Battle Plan.

My Personal Battle

I realized in 2010, in the middle of our QOE three year phase, that changing is hard. The bigger we got, the harder it seemed. I understand why the CEO of that acquiring company felt it would be impossible. People often ask me if I was to start another company in technology would I start one like Trace3? I gave that some really serious thought about six months ago. The answer is “No” and a little bit of “Yes”. I would start a company focused on bringing New Technologies and Human Capital Services to market that helped our clients become more relevant. Current New Tech examples would include cloud security products like encryption, single sign-on, software platforms to rapidly develop mobile apps, database virtualization, big data analytics, etc. Human Capital Services would incorporate re-engineering IT for private, public and cloud infrastructures, human cloud models for services, Dev-Ops, data center migration, etc. I would start a company for where the market is moving toward, not where it has been. It was then, at the very moment that I was thinking how smart I was, that I realized I had never been closer to “I wish Trace3 could do what you are doing.” If I knew this is where the market was going, but changing Trace3 would be very difficult and I ignored the fact that I needed to do it, how was I any different from what I had once scoffed at. Over the years, Hayes Drumwright had become more okay with the

middle. I had become more okay with striving for mediocrity because change is hard. I had become more okay with it because as I moved outside of my realm of expertise (as many of the new company ideas are) I did not truly scour the market for people that could help me tackle the new landscape. The Boxer was winning.

As I write this I assume many of you think I am crazy. Trace3 turned 10 years old in 2012 and it was one of the most transformative years in company history. It is the first year we decided not to grow because we had so much aligning to do with the new market. We went from \$308M in sales in 2011 to over \$324M in 2012. We matured our services offerings on all fronts. We formalized our VC fund, InstantScale, and began a regular cadence with two of the top VC firms in Silicon Valley in order to make sure we had access to the best technology start-ups in the industry. As employees, we truly started to understand how our roles were relevant to the company's value proposition and properly aligned to them. With all this being true, how could The Boxer be winning? He was winning because while I had made all of those moves, I refused to touch the sales people. I did not change anything for them in a powerful way to steer them to the new market. Many did, regardless of my lack of leadership, but many did not. In order to move forward, I was going to have to get the sales team to be willing to learn new products and services and potentially cannibalize high revenue business lines.

In order to ask the sales team to change, I had to build a team of leaders that could make good on new offerings. I found, as I am sure many of you with management experience have, that sometimes the status quo wins out too often without adding new people to the team. I made tough choices with people and positions. I carefully built a team by the fall-but still had one problem. I was used to calling all the shots.

Regardless of how great the team is, I had to learn how to lead them. I had to be open to evolving my leadership style.

In November I held a leadership offsite with a company called “The Table Group.” It was transformative for me. I realized how my weaknesses affected the team. I realized accountability BETWEEN team members would be the key to our success in 2013. I understood the value a coach like the Table Group would provide to me personally, and Trace3 as a whole. I realized being a CEO of a \$50M company is much, much different than being a CEO of a \$300M company. I got a glimpse of what it would take to be the CEO of a \$1B company and how I would need to change. I will not go into everything that happened in the meeting, but I will tell you the final day of that offsite was the best of my business career. I walked in hopeful I could learn and change. I walked out understanding the battle I must win with myself in order for Trace3 to become what we must become.

Needless to say, I am excited. We are changing the compensation and goals for the sales team in 2013 for the first time in company history. They will be truly aligned to our value propositions and help Trace3 become the company it must become to thrive in the new market. In 2013- we will move forward aligned.

Clarity

One of the first things we always need to do is understand why we are doing what we are doing. At the offsite, we took a great deal of time discussing it as a group. Why and what are we going to accomplish and overcome? We answered those questions. The result was a great deal of clarity. Knowing which proverbial “hill” you are going to attack

makes winning the battle a lot easier. I give you the three questions we wrestled with and their answers below:

Question #1: Why does Trace3 exist?

Trace3 exists to strive for greatness and innovate the markets we choose to impact.

Amazingly simple isn't it? Lofty and very difficult to accomplish for sure. That's what makes it worthy. The first half of the statement speaks to our people. These are people we invest in, depend on, and believe hold this goal in their hearts. The second half will serve as our guidepost for future investments. It will be a litmus test for new divisions, products and services. Trace3 exists to strive for greatness and to innovate the markets we choose to impact.

Question #2: What does Trace3 do in 2013?

Trace3 designs and delivers new technology and converged infrastructure solutions with human capital services.

This is really the core of it. It is simple and direct. Every client should be aware of how we deliver those three things. Every person is responsible for delivering this message.

Now to answer the nagging question of why I am convinced 2013 and this next decade is ushering in a new phase for the company.

Question #3: What is important right now?

This is really the crux of the "Battle Within". Intuitively our clients, vendors, and you reading this are aware of the answer and know it to be true-but since it involves change; it can be tough to stomach. At Trace3 we began preparing for

it in 2009. What is important right now? What is our battle cry?

Trace3 must be relevant in the POST-VAR ERA.

As you digest that statement many things occur to you. Will there be a POST-I.T. ERA? How long until this occurs? What investments will need to be made? Can everyone make this turn? Will our competition see the danger in time? How much opportunity is there in this change for those that can navigate it?

I can tell you this-we are already heading in the right direction. New Technology and Converged Infrastructure with Human Capital Services will be our focus in 2013. We do so many things at a high level already and we will continue to strive for greatness as the market shifts. The leadership team is 100% in agreement on Why We Exist, What We Do and What Is Important Right Now.

Markets change, but we are still the same Trace3 we have always been. Our core values hold strong. **We are confident, effective and have fun.** Going forward we will add **being accountable and strategic** to that list. In 2013, my job of securing the family and creating value/opportunity has become a little easier. I now have a team holding each other, and myself, accountable to all I have written on these pages. I am giving you a leadership team in 2013 that can lead us, that we can lean on and that we can hold accountable. They are the playbook. HOW we will accomplish 10-50-100, deliver on New Technology, build our service catalog, etc. will all be answered by them. Delivering on the promise of why we exist will be up to all of us.

Trace3 Remains

I will leave you with this. The first ten years at Trace3 were some of the most challenging and best times in my career. I realized many of the difficult times came because too much was dependent on just one person. I have attacked that weakness.

I will focus on strategy, innovation and ensuring our core values hold true because I am good at it and have a team I can trust to deliver the rest. I plan on delivering on the promise of this being the best company you have ever worked for. In order to do that, I need your help. You must each personally win the battle within. Accomplish that in 2013 and we will be a force to contend with.

*In the clearing stands a boxer
And a fighter by his trade
And he carries the reminders
Of ev'ry glove that layed him down
Or cut him till he cried out
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"I am leaving, I am leaving"
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Building Value

By Nate Julson, CFO

Windows & Stages

I believe Trace3 passed on a huge window of opportunity to “cash out” after we posted our 2011 results (and had even stated it at the time). If we all agree that the traditional VAR model is in its final stages, I think we also have to agree that the time frame above may have been the final “peak” for VAR’s from a financial standpoint. Combine this with Trace3’s brand and growth rates within such a valuable region, and it’s hard to argue that we would have ever received a higher multiple than during that time frame – *for a traditional VAR model.*

We have an independent investment bank estimate the value of the company each year for the purposes of SARs pricing. The valuation of the company, based on 2011 results, was over \$69,000,000. There is a case to be made that the strategic value of the company to one of our competitors may have driven that price up considerably. It is absolutely true that the company was started with \$100 in paid in capital – we never raised money through an equity sale and we never leveraged the company with debt. In other words, every bit of value for Trace3 came through organic growth and operations. **In ten years, Trace3 turned \$100 into to \$70,000,000...and we chose not to sell the company.**

The reason I point this out is to illustrate two very important issues:

- 1. Management believes the opportunity ahead of us is far greater than the \$70M Trace3 potentially had on the table, and we believe in our people to get us there.**

- 2. To demonstrate the level of focus management has on making the changes necessary to become a far more valuable business model**

I believe there are three main stages in Trace3's next evolution. Stage One- We will obviously need to validate that our post-VAR vision will be the new reality. Stage Two- We will then need to prove that Trace3 can capitalize on this vision (taking advantage of our head start). Stage Three- We will need to decide on what to do with our next window of opportunity to capitalize on the much larger value we have created.

In the near term, Accounting, Finance and Operations is placing high focus on our role for the first two stages. In short, the first two stages can be shortened to "Be Relevant in the Post-VAR Era". During this period, our role will be to give leaders at all levels of Trace3 the leverage and tools they need to get us through these first two stages. The tools I am referring to would include reporting, analysis, coaching, cash flow and increased operational efficiencies. I would break these down as follows:

Reporting/Analysis

- Regional Income Statements (P&L)**

The primary function is to assist the GM's in evaluating the strengths and weaknesses within their regions from a financial standpoint. It shows how each lane of business is doing from a revenue and margin standpoint, along with how we are managing expenses. More importantly, each region can compare itself to the rest to seek out what is most successful and evolve much more quickly.

This should all lead to GM's having more informed conversations with the Divisional leaders on how we should be investing resources into the business lines and their regions.

- **Divisional Income Statements (P&L)**

These have existed for some time, but have not received the same amount of focus that the Regional reports had in 2012. The Divisional P&Ls will be the top priority for us in 2013. To be clear, Trace3 currently has six Divisions: Consulting, Product, Smart Hands, Staff Augmentation, Training, and Corporate (this final Division is essentially a bucket for expenses that cannot be specifically assigned to one of the other Divisions). Since the Divisions are so different, these P&Ls will not be compared to each other, but may be even more important than the Regional P&Ls. In many respects, the hiring at Trace3 is done on a Divisional basis and this is the single most important factor in determining Trace3's profitability. It will be incredibly important for each Division leader to have in-depth financial analysis and understanding in order to invest more efficiently in their businesses.

- **Global metrics and analysis**

While this is a wide and varied list, we also need to be monitoring company-wide metrics to ensure overall health, rather than simply looking at each Region and Division in a vacuum. The current big three that we are focusing on include:

- 1) **Net Income** - This one is hopefully obvious to everyone and if you're new to Trace3, you should

know that our near term net income goal is 6% of revenue (before taxes).

- 2) **Total Gross Profit** - Total Gross Profit should always be at least three times larger than our total Salary expense. Obviously, our people are our greatest asset and investment. Any time we are exceeding this metric, it would indicate that we are hiring efficiently and everyone in the organization is contributing to the Net Income goal in a meaningful way.
- 3) **Gross Margins on Service Offerings** – If our service offerings are not providing significantly better margins than our current model, it would make much more sense to continue to invest more heavily in the product offerings. We do not believe the market will continue to reward pure product plays in the future. Intuitively, this would not seem to be a problem as we will be providing far greater value to our clients. From a numbers perspective, the revenue of the service offerings is much lower and the overhead (and associated operational risk) is much higher, so monitoring these margins will be the key indicator on how well we are capitalizing on where we believe the market is headed.

Responsible growth

- **Budgets**

I know some people may think this is a dirty word, but Trace3 is at the point of maturity where we can no longer pretend like we don't need a more formal method to determine how we invest our resources. Rather than viewing it as a bureaucratic exercise, I hope managers will see it as a way for management to provide more clarity on expectations. This will come in phases, but look for this to be an improvement for 2013. The early focuses will be on capital expenditures and hiring metrics based on gross profit performance.

- **Balance Sheet Capacity (aka Cash Flow)**

It is possible for a highly profitable business to be constrained by poor cash flow. This has not been the case for Trace3. In fact, it has been quite the opposite. There is no way to grow a business to \$325M in 10 years, organically, without a Finance group doing an amazing job of ensuring that cash comes in faster than it goes out. What this means to people outside of our group is that we need you to understand how critical it is to monitor our client's financial health, payment terms and receivables status. We know it can be frustrating to go through the credit process and shipping holds, but this is the lifeblood of the company. On the flipside, we also need to make sure that we are constantly negotiating our terms with our vendors to further increase positive cash flow.

Operational Standardization & Efficiencies

- **Reducing the number of reporting systems while increasing the amount of relevant information**

Currently, employees throughout Trace3 receive specific information through a wide array of tools – Salesforce, NetSuite, SharePoint, UltiPro, etc. One of the main operational focuses of 2013 will be to hopefully consolidate the number of systems. Terri Cooper (and I to some extent) now has a kick-ass ERP team that is dedicated to this process. They have already made huge strides with a lot of the NetSuite reporting and are currently assessing how to further streamline output to a far greater number of people.

- **Improve the order entry process**

While I would still consider it a long term goal, we have a deep desire to automate the order entry process. This will probably evolve through many different phases. The first step, and a huge focus for 2013, will be to standardize the ISR role and the information that is submitted to Operations. There is no chance of automation if every order is submitted with its own quirks and format. Operations will be providing a checklist of “must-haves” for an order to be accepted. It will also be necessary to mandate that all ISR’s use the exact same version of our Work Order form. Operations will be hosting a session with the ISR’s at the 2013 EBC to present these items and discuss what each group can also do to help continually smooth the process.

So in conclusion, donkeys kill more people annually than plane crashes. While absolutely true, I just wanted to make sure you read all the way to the bottom. I understand and apologize for this being a bit dry, but with so much going into this playbook from so many people, I felt that it was more important to be specific and concise rather than colorful. Do not let this take away from how excited I am about the possibilities in front of us! We have an incredible opportunity to turn Trace3 into something even more special than we have already created, and say we were all part of it when it happened!

Trace3 2.0 – Making the Turn

By Josh Berezin, VP of Sales

I always like having an enemy. Peacetime management is just what it sounds like-boring and repetitive. I hesitate to use the term “war” because we fundamentally have great jobs. We get up, work with clients who want our help, have great camaraderie and make a good living. It doesn’t really sound like war. With that being said, I think it is fair to say we at Trace3, and the majority of our clients, are under attack.

Today we are fighting against two distinct enemies. The first enemy is the shifting economics of the IT industry as it stands today. Technologies have been optimized to allow our clients to “go to market” at breathtaking speeds compared to where the industry was just five years ago.

The second enemy is our own attitude toward the change in the economics of the IT industry and the hard choices we have to make to be successful in the post-VAR and post-IT eras. The first enemy has the potential to scare us into inaction, or a felling of inevitability. The second enemy, the inability to change our own attitudes, will put the nail in the coffin.

There is an excellent book that is really an allegory to what we are dealing with now. I would recommend it highly “Our Iceberg Is Melting: Changing and Succeeding Under Any Conditions (Kotter)” The book is a management fable that walks through a painful problem which requires a group of penguins to realize that their world is literally crumbling. They unite under a common cause and consciously, and as a united group, create a new world. “Once a small group of penguins came to understand that their iceberg actually was melting, they (1) created a sense of urgency in the colony to

deal with the difficult problem, (2) put a carefully selected group in charge of guiding the change, (3) found the sensible vision of a better future, (4) communicated that vision so others would understand and accept it, (5) removed as many obstacles to action as was practical, (6) created some sort of success quickly, (7) never let up until the new way of life was firmly established, and, (8) finally, ensured that the changes would not be overcome by stubborn, hard-to-die traditions.”

This is the role of our leadership team and where we will need the most help from every single employee of Trace3. We have identified the issue and come together as a leadership team to guide us through this change. We are now communicating with everyone we touch that we will change and we will rise to the challenge. Our review of the past few years has shown where the gaps are in our “go to market” and operational approaches. We won’t let up. We won’t stand on tradition or ceremony in our mandate to survive this next change in the market. All of this knowledge and work is irrelevant without you.

There are fundamental economic changes at work in our industry. These changes are roughly akin to the destruction or elimination of things like payphones, video rentals, the mortgage industry and the music industry. In each of those examples, an industry increased its efficiency whether through technological improvement, reducing the links in a supply chain, or changed the way a service is delivered to the end user. Each of those industries had companies providing value through the supply chain, but the opportunities to provide value between the asset and the ultimate consumer became scarce, and dried up. Fundamental economic theory brought down Blockbuster (killed by RedBox, Netflix, Amazon and Piracy), and AMR Corp (killed by Southwest Airlines, pension obligations, and outside mergers that made

them a medium size carrier with a large carrier cost structure).

We are currently watching the very public, but not complete, demise of RIM (iPhone, Android and the rise of mobile applications). The iPhone was launched in 2007. On August 18, 2009, [*Fortune*](#) named RIM as the fastest growing company in the world with a growth of 84% in profits over three years despite the recession. That article was published less than three and a half years ago. Think of the shifts in market capitalization between RIM and Apple. One shift in technologies moved billions of dollars.

The enemy is here! It's not hiding! We see it! We are ready to fight!

For those of you who are a little freaked out by my preamble, welcome to the club. Before we get into the specifics of where we go from here, and to reduce your blood pressure, let's look at Trace3's unique advantages: (1) unlike many of our vendors, we are not married to a particular technology that is not adapted to helping our clients we have the power and access to change, and change fast, (2) we have strong brand recognition coupled with "C" level access to clients who still want our help to take advantage of the economic changes in the market, (3) the very services we are concerned about want to partner with us because of our consulting ability, brand and client access, (4) we are sufficiently capitalized to accomplish the hiring (5) we are way ahead of the companies that compete with us in the traditional VAR space.

The rest of this chapter will focus on how we get there and will ask for specific actions from Trace3's employees.

Standardize Our Offerings (FY13)

We currently work with over 140 vendors. Our company is phenomenal as selling discrete lines of technology to limited groups of people. Our next iteration will (1) require broader strategic technology discussions centered on fewer vendors, (2) integrate cloud technologies, and (3) include a number of different service offers within our Human Capital division.

We will continue to expand our ability to architect and deliver converged infrastructure solutions. We believe there will continue to be a market for custom architected solutions that incorporate server, storage and virtualization technologies. This will require us to invest in more high-end architects and free time of our existing high end architects to build and augment vendor stacks into Trace3 standard deployments. This will also require increased documentation, best practices, and standard delivery methodologies. We will also be adding to our managed services offerings-specifically around converged infrastructure and private/hybrid cloud.

Coupled with converged infrastructure, will be an increased focus on software. I address “big software” later in the chapter, but that is based on adding value to ELA’s. The software I am referring to now adds value to the converged infrastructure stack and widens our traditional perview. Rather than simply providing the physical and virtual infrastructure, we would add software that enables operations to do more with fewer headcount while servicing the demands of our client’s business partners. This expansion would include requirements for orchestration, provisioning, self service automation, capacity management, performance management, lifecycle management, external cloud connections and predictive analytics.

The difference in selling the aggregation of these technologies is that it requires us to help the client unearth what their vision of the future is, share that across the organization, achieve consensus and agree to move forward. It will then require higher level business process consulting to achieve the complete picture. Our Engagement Managers will lead a lot of the charge from selling discrete lines-to-selling solutions. We have the capacity and capability today to effect that change.

Director of Technology (Q1 FY13)

We will be hiring a Director of Technology to work with the Executive Team and our Architecture groups. This will allow us to aggregate technologies that we can wrap exclusive intellectual property (IP) around. The IP can come in several forms. Some of it will be standardized deployment methodologies, templates and sample run books. Another category of IP will include custom application development and integration. This custom application development will “wrap on” top of existing application sets at our clients to allow security and mobility.

The Director of Technology will also make decisions around which pieces of converged infrastructure we will continue to invest in, and which technologies we will couple into our branded solutions. Solutions that are validated, tested and deployed in a cost effective and complete manner, will enable us to scale faster and solve client requirements. The converged infrastructure market is still forecasted to be at \$400 billion worldwide by 2017.

Adjacent Market Opportunities (FY13)

Our three BAMs represent hundreds of millions of dollars of market opportunity *in the accounts we already have*. Cisco

alone is the single largest adjacent market opportunity we have. The company embraces the channel, is willing to assign the best on their accounts (rather than standing on relationship) and seems to be full of bright people who want to succeed.

Additionally, Cisco's product set allows us to add significant engineering and business value over our traditional rivals: IBM, HP and Dell.

Why are we so attractive to Cisco? Cisco Wants Data Center Experience: We have it, they know it, they want to partner with us and are *phenomenal* at being good partners.

Cisco is the single fastest growing public company in our portfolio and could easily be our top selling vendor within two years. The executive team and John Bristol are rapidly growing our relationships within Cisco to enable you to get to market easier.

EMC has also proven they want to partner with Trace3. Our limiting factor with EMC appears, at times, to be our own relationships. We are going to have to take some risks and do a better job working with EMC. We will also be hiring more people who have some of their DNA so we can form better relationships and trust.

Call to Action: Make sure you know the Cisco and EMC SRs in each one of your accounts. Each SR should also have a relationship with that local General Manager. Having relationships at the GM level reduces noise and conflict and allows you to move faster.

Human Capital Solutions (FY13)

Clean, clear and concise. It is that simple. We want our Engagement Managers and Account Representatives to have

clear roles and responsibilities when it comes to selling human capital solutions that add the most value to an engagement. We have to maximize our ability to understand client expectations of a project and make sure it is scoped properly. We have to understand what it is about the project that allows our clients to focus on their core competencies. If we just align ourselves to accomplish those things, we are relevant with the services we offer today.

We are midway down the path of having defined service offerings that are easy to explain and add value. This will accelerate our opportunity to either engage with our clients or help them find someone with the expertise they are looking for.

I am excited to work with Terri as part of our consulting practice. Our separation of the pre- and post -sales responsibilities effectively isolates the responsibility to delivering services from the sale of the services. This allows us to hold people accountable to client satisfaction, communication and anticipated profit margins. We will continue to build Human Capital wrappers around the solutions we choose to invest in and brand.

The services of tomorrow are being developed and will integrate our converged infrastructure and NTI practices. They will be focused around converged architecture married to the cloud, managed services, big data and security.

Information Security (FY13)

Information Security has always been a hot topic with C-level executives. It is one of those areas that really only gets a lot of attention when it fails. Our job is to anticipate threats for our clients and keep them in their jobs.

Information Security and data mobility has become more important as clients are reducing the amount of data that they keep on premises. It is not sufficient to just lock data down, you have to make it secure and mobile. This will take innovative solutions to accomplish.

Information Security is our newest BAM and is being led by Steve Groom who will report to me. The goal this year is to continue to invest in the program so that every district has an Information Security guru in their office. This will allow all of our architectures to have a final security review prior to installation. This initiative incorporates all of our mission statements around converged infrastructure, data mobility, cloud availability and human capital services

Call to Action: Schedule time with Steve Groom and his team to learn the offerings and how to ask clients questions about data integrity and security.

Expand Existing Footprints (FY13)

The two largest markets we have are in Los Angeles and the Bay Area. We have a total of five people selling in those two areas. We will be adding at least two people in the Bay Area by March, along with additional relationship-based hunting to increase our account penetration in the Bay Area. There are individual Account Representatives in the Bay Area working for traditional VARs that do over \$200 million in top line *on their own*.

We will continue to invest in top talent in Los Angeles, as three of our people in Los Angeles drove close to \$70 million total out of less than 15 accounts.

Call to Action: Tell the Trace3 story and help find people who deserve to work here.

Attach a Revenue Stream to Every Asset Sold (Fy13-14)

The annuity (aka the “razor blade”) is always the holy grail of almost every business. Major vendors make a tremendous living off of the maintenance stream of their products that have a tremendous amount of margin contained within said maintenance and support contracts. That is good business for them, but is a constant pain point to our clients.

Here is the difference in our approach. Every revenue stream we create should reduce the pain our clients feel when managing technology. Our clients should be free to use their personnel to drive projects that impact their business. These revenue streams are financial aspirin for us AND our clients.

We have the opportunity to accomplish this task today. If every asset has Install and Consulting around it, we have started to attach those revenue streams in a way that adds value to the client. As Terri has alluded to, we will enhance our Smart Hands program this year, and we are formulating the plans for which pieces of technology we provide managed services for going forward.

Call to Action: Talk to your clients about putting their converged infrastructure at Switch. “Does it help your operations if you put that (insert infrastructure) at Switch and we managed pieces of it? Which pieces don’t make sense for you to manage?” We have gotten a lot of feedback from clients on which areas they want us to take over (e.g. Smart Hands scope today, then VMware, then operating system, then monitoring, then orchestration, then application). It will most likely take 12 to 18 months for us to manage full stacks excluding the application.

Embrace Big Software (FY13-14)

What value do you provide to me in an ELA?

Clients are finding out that simply because you buy a lot of software, it's the humans who get in the way of actually getting value for what they purchased. We are seeing that with several of our largest software partners (Symantec). A client will buy the software they have in house, lump on a few new titles, and complete a big buy. Everyone is happy for a little while. The issue is coming into play on the re-enrollments. Smart companies do an analysis on what was actually deployed and are actively cutting the value of the next ELA due to lax or non-existent deployment, and what I will term "organizational exhaustion".

From a relationship standpoint we add value to all of the players in the ELA. The client gets someone who stays on after the deal to make the software work. They get a PM they have worked with before who understands the environment, the change control process and the personalities that stifle change. We can be the conduit that enables executive management within our accounts to understand when and if they will get value from their investment, and we can own their experience.

The vendors themselves are realizing they can sell this value to the clients. Their management has seen downward trends in ELA's when the deployment plan is not part of the deal, or their Account Executive is just focused on getting the deal across the line because they are moving onto another set of accounts the next year.

Call to Action: Get better at understanding the ELA process with our major software vendors. Get an understanding of how your clients are using software and see if we can help

reduce shelfware and be a part of a value chain that both the client and our vendor partners can appreciate.

Conclusion

Some of you reading this will think that you should just start over – that you missed the boat. You shouldn't. We are just getting rolling.

I am instituting sales meetings every quarter that will enable us to have a few days per quarter to invest in you without the demands of your daily engagements. We will be conducting training on Professional Services Sales, Solution Sales Training, and new product introductions. We are formalizing the Trace3 introduction so our messaging will be consistent.

We want to help you get there. The learning and putting it into practice is each of your responsibility.

There also may be concern because I have not mentioned some of our top vendors – NetApp, F5, Palo Alto, Riverbed, etc. Those vendors are important to us. I hope they always will be. Our high level of competence in their solutions will be critical to our success in the years to come. We are not abandoning the things that got us here, rather, we are evolving. We are recognizing that adding to those traditional relationships increases our value proposition and increases our relevance in the Post-VAR era.

Call To Action: Focus on what we do exceptionally well. Be open to what we want to teach. Trust that we are on the right path.

New Technology Initiatives

By Chad Cardenas, VP of Business Development - NTI

NTI Before It Was NTI

When people ask me about this new group at Trace3 called NTI, how long we've been around, what the focus is, etc., the first thing I make clear is the fact that Trace3 has been executing on NTI for nearly ten years – just not always in an official, defined and process-oriented capacity.

Ten years ago there were two critically important areas of focus for us that began the never-ending process of differentiation and innovation in the industry. First, we decided to hire the best talent in the industry. We believed if we hired top level talent, paid a premium for them, and were able to represent our partners' offerings as well or better than they could, our ability to execute and provide a high level of quality of service to our clients would be unmatched. But that was not enough. Imagine as a large enterprise client eight years ago, a rep from Trace3 calls and says "I'm with Trace3, we've been in business for a couple years, we're a 20 person company and we have the best engineers and reps in the industry – can I talk to you about your storage infrastructure, core network, or server refresh plans?" Not likely. Without a level of trust and credibility in place, why would they? They could call a dozen different partners for a fair price and basic service for most major components of the infrastructure.

Second, we identified and partnered with leading emergent technology providers. Now imagine the call goes like this: "I'm with Trace3, we've been in business for a couple years, we've got great people, etc. but there's this company called Riverbed – I know you have 20+ remote sites all carrying infrastructure spend, significant data being transferred

among them, and concern with WAN performance and costs. You've never heard of Riverbed, but they have a solution that can reduce your infrastructure spend at those sites, dramatically increase the performance and user experience over the WAN, and save you a ton of money on your carrier costs. And, oh, by the way, this is a product we have put through exhaustive testing at Trace3, have introduced it to a dozen CIOs who have all given positive feedback, and we have a team of engineers who can present it to you, help customize it to your needs, and take you through a full implementation and training. "Much better odds that client is going to take the meeting due to its unique value.

The best early examples of Trace3 NTI in an unofficial capacity are Riverbed, Palo Alto, Data Domain and Isilon. (It could be argued NetApp ten years ago was a new technology, given their established competition and how disruptive they were to the space, but that's debatable.) These are companies/products Trace3 found at an early stage in their growth, before they hit critical mass, and we were able to become experts on the solutions and introduce them to our clients before most, thereby achieving credibility and relevance with our clients when it came to emerging technology. Then, once they got to know our people and other areas of expertise a little better, we were able to expand our relationship with them to include many other things.

Formalize, Define & Lean In

These intense focus areas on people and technology selection contributed significantly to Trace3 being able to grow from nothing into a \$100M business, serving several hundred clients in just 6 years - very successful growth by any measure. By that time, we had built a client base that spanned all verticals and every size enterprise-and it was time to get serious about focusing on their feedback. We

implemented Client Advisory Boards, CIO Summits and asked Account Representatives to work with their clients to define what a “home run” for their relationship would be going forward. With overwhelming consistency, one of the main points of feedback we received was regarding new technologies. I remember talking to the CIO of a major law firm in Los Angeles and asked her how she would define a “home run” with us over the next 3-5 years. Without hesitation she said “if you were to keep bringing us these game changing technologies that I and my team don’t have the time or resources to find, test and implement on our own, that by itself would be a home run for us.” We had worked with them on Palo Alto, Data Domain and Riverbed – they were thrilled with all three and since then we’ve done much more for them.

Based on our early success and the consistent client feedback, we decided to make NTI an official core focus for the company going forward. So we did two things: (1) We developed relationships with two of the premier venture capital firms in the Silicon Valley – Greylock Partners and Andreessen Horowitz. When it comes to enterprise and consumer technology, these two firms are among the very elite in the world. They not only have a proven track record of choosing winners, but they have specific approaches to enabling their portfolio companies (board oversight, executive placement, business planning, marketing, etc.) that are closely aligned with Trace3. These relationships combined with our own Trace3 investment vehicle (InstantScale) are paramount to the knowledge sharing and early access that all parties benefit from. (2) We created the New Technology Integration (NTI) business at Trace3. This is a team with a dedicated focus on creating and maintaining VC relationships, researching shifts and trends in the industry, finding companies we believe have relevance to what we’re helping our clients accomplish, vetting those

companies and their technologies, and ensuring their smooth and speedy integration into the Trace3 field organization and our client base.

Stages of NTI

I used to think the **Research** phase of NTI would be the easiest. Our Trace3 network in this industry is vast and full of intelligent individuals: clients, account representatives/engineers in the field, partners, VCs, entrepreneurs, etc. – they all have opinions regarding what the next areas of focus for Trace3 should be and what specific technologies we should be partnering with. This is a good thing, but the real magic is in harnessing that network and sorting through everything based on pre-defined areas of interest-to ensure efficiency and accurate results. Current examples of research categories for Trace3 are Cloud (as it relates to Trace3 (a proper explanation can't fit here)), Big Data and “The Next Great Storage Company”. However, we're not limited to those and still have mechanisms in place to search for the next Palo Alto, Riverbed, etc. – the next game changer for any traditional infrastructure layer.

The **Evaluation** phase of the process is much more than just a “technology deep dive”. In this phase we're conducting a market demand analysis and exhausting every possible angle of success or failure by looking at the management structure, business plan (including “go to market” and channel strategies, sales and engineering hiring plans, timelines, etc.), funding (which VCs have backed them and with just \$\$ or business consulting too) and, of course, the technology itself. For the technology, each case may be somewhat unique, but we have three main areas of focus: initial technology review and feedback open to all engineering and sales at Trace3, deeper inspection of the products via an internal Trace3 Proof of Concept (POC), and introduction to a select set of

clients for their unvarnished feedback. This phase provides tremendous value to our clients that they will not find with anyone else.

The **Execution** portion of NTI is where the rubber meets the road and ultimately what the VCs and start-ups really care about. This is where we're proving much of our value to them and earning the right to the next opportunity.

Execution, or *Integration*, includes everything necessary to formalize the relationship between Trace3 and the start-up, and enable the Trace3 field to be effective and fast in bringing these products to market. Not just by selling them, but by offering packaged professional services, training, marketing, and someday even managed or hosted services centered around the new technology. This phase includes, but is not limited to, the re-introduction of the company and solutions to the Trace3 field org via a deeper level of education and training for both sales and engineering, making peer to peer connections between Trace3 internal teams (training, finance, marketing, sales leadership, etc.), and the basics of field enablement such as how to engage, pricing, lead flow, deal registrations, etc.

When a product has reached **Maturity** in NTI, it needs to be smoothly transitioned into the greater Trace3 pool of partner relationships and managed accordingly. When this happens could be dependent upon many things (timing of exit, number of new clients obtained, amount of revenue achieved in specified period of time, expectations agreed to and set by Trace3, start-up and VC, etc.) but in large part will be based upon the need for a dedicated focus by NTI in order to be successful. A very good indicator of when a product is ready to mature out of NTI is when that relationship is on a steady path of success with client acquisition and revenues, the field is enabled and highly functional in selling and implementing

it, and it no longer needs additional dedicated resources within Trace3 to continue doing so.

Examples

Riverbed, Palo Alto, Isilon, Data Domain and 3PAR were all discovered by Trace3 early in their growth, were partnered with successfully, and all had successful exits via IPOs or acquisitions. Delphix and FireScope are both official NTI and Instant Scale investments-currently in the Execution phase and on their way to Maturity. Zenprise is a great example of a company we found and vetted, then made a decision to partner but not go all-in with an investment and dedicated focus because we could not be sure they would be the clear and *only* winner in the space – a good decision in hind sight as they were acquired by Citrix recently and still face stiff competition from Good, Mobile Iron, and others. Skyhigh Networks, CipherCloud and Okta fit into our Cloud category and are in the Evaluation phase. Same for Cloudera and Platfora, but on the Big Data side of research. Pure Storage and Actifio are being evaluated as possible “next great storage companies.” ScaleArc is an example of a company not fitting into one of our core research categories-but could be a game changer in its specific area of database deployment and management.

Who Benefits?

How the **Client** wins in all this should be obvious, but just in case... Most clients don't have anyone, let alone a dedicated group, focused on researching new technologies for their company. And if they did, they likely wouldn't have a mechanism by which they can fully vet the company and its products prior to bringing it in-house. If they get this from a partner like Trace3 who has a meaningful knowledge of where they are today and where they want to be tomorrow,

it's much more impactful. The Client can rest assured when Trace3 brings something to them-there's a high likelihood it will be interesting, and if it does wind up being a fit, they know most of the heavy lifting of research and evaluation has already been handled. AND, they'll have a team of expert resources backing them every step of the way.

What does every **Start-up** and entrepreneur in our space desire? Some have a passion for technology and want to be the leader in their market. Some want to change the world. Most want to grow fast, have a meaningful impact on the market, and have a successful exit via an IPO or acquisition. All of that is achieved more effectively and quickly when Trace3 NTI is involved. We provide world-class sales and engineering teams, a large trusted client base spanning multiple verticals, and a history of success in picking winning companies and helping them grow.

The benefits to the **VC** community is slightly less complicated, but no less important. ☺ What does every major VC want on some level? Yes-to maximize the returns to their investors. Pretty simple. When Trace3 NTI is involved and we execute properly, we give the VCs a quicker and larger return on their investments for all the reasons mentioned above. We're basically mitigating the execution risk they have on their investment in a big way.

I list **Trace3** as the last beneficiary of all this is because the story has and should always be told with us being last, in the spirit of humility and selflessness. The benefits of a successful NTI business to Trace3 are not just real, they are completely game-changing and necessary for what we want to accomplish in the next ten years of our growth. NTI is an incredibly effective way to open a door in an account that was previously impenetrable with traditional products. But NTI is just as (if not more-so) effective in taking what you

think is a strong existing relationship to a new level. The individuals in our client base are made up largely of mid-to-upper level IT management. Yes we have CIO relationships- but they are the minority when you take a broad view. I have seen many examples of NTI elevating our game with existing relationships and taking us to new heights on the org chart just in the last 12 months – a time period which has been almost all developmental in nature for NTI. CXOs care about our passion and dedication to New Technology. They are extremely attracted to our connections to the VC world and really appreciate having early access to solutions that can solve their biggest problems.

Everything Trace3 wants to be in the future for our clients, everything we're trying to protect against, and everything we want to provide for ourselves internally is dependent in part upon successful execution of our NTI strategy. NTI creates *relevance in a post-VAR era*. This 100% helps us innovate a market. There is so much riding on this and I have complete confidence in our ability to deliver. We have a rich history of success in this space so the foundation is there, giving us a massive head start.

The Battle Plan

If you're still with me then you're undoubtedly excited about the opportunity and asking yourself: "What can I do to ensure this effort is a huge success?" In order for this to work, it must be a collaborative effort among all business lines and with vigorous participation from the sales teams. This will be easier for the teams who have detailed account plans, org charts and knowledge of their clients' business. It will be more difficult for those who don't, but will help you get to those points which are necessary for success in all other aspects of your business.

Every Account Representative should have a plan for integrating New Technology into their client base. These will be reviewed in detail and customized as needed, but here are suggestions for core components of the plan:

- A breakdown of your business identifying people, problems, environment and challenges
- Understanding of the NTI story and pitch. If you're not comfortable giving it, work with Chad on it until you are. This is a critical first step
- Understanding of the value propositions of NTI companies
- Understand where the opportunities are and have a plan to address them
- Think outside the box / take nothing off the table in the beginning
- Be prepared to think beyond immediate transactions, take a broader view of building your business, and focus on long term client success as a #1 priority
- Do not discount the roles of Engagement Managers and Engineers in the plan

The point is to develop a plan for integrating NTI into all of your accounts in a way you feel is appropriate. Your sales manager, GM and I are all ready to help you develop the plan. When ready to execute on the plan, you can expect the following from NTI:

- Focused market research based on the needs of Trace3 and our clients
- Vetting of the companies' people, business plan and technology
- Introduction of the company and technology to several key clients prior to taking it mainstream

- Regular communication around what NTI is researching, evaluating and how we're progressing with current relationships
- When appropriate, dedicated SMEs to support the representation of a solution
- Internal Sales and Engineering training
- Where possible, coordinated internal efforts to provide Trace3 Services, Training and Marketing programs for each solution
- Where appropriate, client access to VC partner speed dating
- A very flexible and adaptable model that can shrink and expand as the business demands.
 - o Some relationships will require more dedicated training or resources or services, others will not
 - o Some products will be very simple to evaluate-while others will require more time and effort from a larger number of people to arrive at a decision

A Unique Opportunity to do Something Special for Others...

I'll leave you with a story that in the last few months have really made me even more excited to be a part of all this...

*At the Santa Barbara CAB this year we had 13 CIOs as a captive audience for 2 days. We covered a lot of ground with them and at the end solicited feedback and suggestions for how to make it better. They all loved our guest speaker (Daniel Pink, author of *Drive*) and almost unanimously asked why there wasn't more time spent on New Tech. What made that even more powerful for me was the fact that

not all of the clients in the room had been really exposed to NTI yet. For some of them the very brief mention of it one of the days was enough for them to want it to be a focal point next time.

This new approach to serving our clients is putting us on the map in this industry like never before. Client CXOs, Partner CXOs, Entrepreneurs, Partners at the premier tech VCs in the world... are paying attention to what we're doing with NTI. The potential for everyone involved is so huge that a lesser company would likely be too intimidated to make a run at it. It is ours to lose, and for now we have complete control over to what extent that potential will be realized.

The Services Battle Front

By Terri Cooper VP of Operations

Almost three years ago I sat, as a client, at my first Client Advisory Board dinner in Denver. I was fascinated by the discussions amongst my peers about the IT industry, the coming of the Cloud and the changes they saw coming for all IT organizations. During the discussion Hayes asked a simple question about what Trace3 needed to do in order to stay relevant with their clients. My answer was simple:

“Don’t leave”. As a client I wanted more of Trace3.

Specifically, I wanted more time from their Architects and Engineers who made my entire team better (and look really damn good) because of the work they did and the knowledge they shared on trends in the industry. Whether we want to believe it or not, I could buy gear from anyone. I might not get the same level of engineering support, but in the eyes of most CIOs, VP of Procurement or Sourcing, and other senior IT executives, a VAR is measured by their ability to provide the lowest price. A VAR, even one as great as Trace3 that has insanely smart Engineers, is in and of itself not the valuable. A company with insanely great people that is in the business of selling Converged Infrastructure Solutions and Human Capital Solutions is not a VAR. A company like that is a “strategic partner” that is a game changer for an IT executive who needs to weather the coming storm. They deliver the infrastructure and have the people who can design it, install it-as many VARs can. They also deliver consulting services that help them migrate between data centers, develop cloud strategies, migrate into private and public clouds and stay ahead of the rapidly changing IT landscape. As importantly, they also are able, through their partnership with IaaS/SaaS/PaaS providers, to recommend alternative solutions to acquiring new gear that are more in line with the goals of reducing costs and increasing agility that every IT organization must deliver. No VAR would be willing to

cannibalize their revenue stream and do that. The Services business will allow Trace3 to offer our clients just those types of alternatives.

Services at Trace3

Services at Trace3 are comprised of four offerings: Training Services, Resource Management, Professional Services and Managed Services. All of these offerings are critical to our overall Services strategy. Clarity on our current state and goals for 2013 is essential to understand the specific roadmap on how we will achieve these goals.

Current State of Services

Services are a new business line for Trace3 – essentially a start up within a business. We have suffered through some mistakes and growing pains that are not uncommon for a start up. Across all offerings we have made an incredible amount of forward progress in 2012.

We have established the foundational components that will allow us to mature and grow this business.

Resource Management is the most mature of all the four lanes of business. We have been doing this very successfully for several years.

- Delivered over \$7.5M in revenue to Trace3.
- Provided a valuable service to our clients that enabled us to have an ongoing presence in their ecosystem.
- The second half of 2012 we started the processes of better aligning Resource Management with Professional Services to ensure these two businesses are complimentary to one another.

Our list of accomplishments for the Professional Services team for 2012 includes:

- Defining and implementing a business model that addresses the different dimensions needed for a successful services organization: Engineering, Marketing, Sales, Delivery and Operations.
- Developing an organizational structure that enables the delivery of each functional area: a Services sales organization, engineering process responsibility, Operational leadership and a Delivery structure with strong leadership by regional Professional Services Managers that are held accountable for profitability of their region, the development of their people and the success of the global Trace3 services business.
- The last half of 2012 we saw a month over month increase in Revenue and profitability and ended the year with the biggest month ever for Services.

Our managed services business is in the infant stage, but has come on strong this year.

- Smart Hands in Las Vegas at SwitchNap has continued to add clients and provide additional services to both Trace3 and Switch clients.
- Trace3 extended our partnership with SwitchNap and is now reselling space in our 60 cabinet cage at Nap7.
- We are working with several clients on opportunities to provide managed services utilizing both Trace3 and third party partner resources.

Prophecy and Prediction

I think before we understand how we support the goals of Trace3 for 2013; we need to understand the goals of the Services organization for 2013. The most important goal for the Services organization is by the end of 2013 for Services at Trace3 to have a clearly established brand. That brand will represent quality, dependability, innovation, ingenuity and trust. The Services business will have completed building the foundation that will enable further transformation as the IT industry evolves to ensure we can help our clients remain ahead of the curve. We don't know what that will be or how we will need to evolve, which is why it is critical that we develop the foundation that will allow us to develop and deliver increasingly complex services spanning not just infrastructure technology-but application and business process layers of the IT stack. We will have established:

- Clearly defined service offerings with rate cards and sales collateral to enable our sales organization to sell and our clients to consume what we can deliver
- A solid delivery organization that is able to staff the right people at the right time
- A recruiting pipeline of resources that are excited to work at Trace3 as soon as the business requires them
- A staffing business that is integrated into and complementary to our Services business-enabling us to leverage short term project resources
- Operational excellence in how we manage the Services business-from financial reporting to staffing metrics to billing to policies, processes and procedures to support our brand

- A new service engineering process that enables our engineers to contribute their field experience and knowledge toward new service offerings
- Career plans in place for all Trace3 engineers that leverages the Trace3 Training Services and strategically positions our engineers and Trace3 to support new technologies
- Clients that are excited to be references about how Trace3 has helped them improve their technical and operational capabilities in a cost effective manner
- Resources leveraging across all Trace3 regions and that can support client needs outside of traditional Trace3 markets
- Services becoming trusted across the Trace3 organization for its ability to engineer, market, operate and deliver services in a high quality manner expected of Trace3.

Priorities – How we accomplish the goals for 2013

Professional Services and Resource Management

- Operationally mature in how we managed the business from a financial perspective
- Strong leadership that brings financial acumen and delivery excellence
- Investment in our people by leveraging our own training services for career development
- Development of a Services Catalog with details that enable sales and clarify delivery
- Alignment with our EMC, Cisco and Symantec BAM's.
- Services Sales Training to educate our Sales team on what to sell and how to sell it.

Managed Services

- Operationally mature in how we manage this business
- Partner with the NTI team to evaluate each new technology from a managed services opportunity
- Leverage third parties to scale faster for things such as an NOC and Service Desk to scale faster
- Continue to invest in our Switch partnership
- Evaluate manufacturers and clients which can augment our strategic solutions
- Define and deploy a Trace3 Private Cloud offering
- Develop a Managed Services Offering Roadmap.

The Journey versus the Destination

I took as many literature classes in college as I could as my electives because I loved learning how to analyze literature and read the subtle messages and meanings within great books and poems. I still love reading and trying to identify and understand the hidden meanings. The song The Boxer is about a struggle and a journey. The end of the song doesn't end in a heavy weight champion win and the awarding of a belt, because that is not the point of the song. The last two years have been a significant struggle for the Services business at Trace3. 2012 brought more direction, organization and clarity to the business. We have entered into new lines of business, specifically managed services. We have had leadership changes. Change is necessary and good but change brings on additional struggles as we re-evaluate direction for both Trace3 and ourselves. Two years ago at the EBC we had the opportunity to listen to Tom Mendoza speak. He is an amazing leader and. The one thing that really resonated with me that Tom said (and I am paraphrasing) is that if you are not changing, you are not moving forward and you are falling behind. Trace3 is

moving forward and the Services business is a critical component of making that happen. We will see more changes this year as we cement our foundation and build for the future. I have never been more engaged, excited and focused in a role than I am right now at Trace3 because of how excited I am about the opportunity that is right in front of us to drive change in this industry. What makes it exciting is the team we have at Trace3. We can and will move mountains. The point of the song is about the struggles that we encounter on our journey. Fulfillment is about the journey, what we bring to it and what we learn along the way as much, if not more, than it is about the destination. I promise great fulfillment.

To quote my favorite poet, Robert Frost from his poem Stopping by Woods on a Snowy Evening:

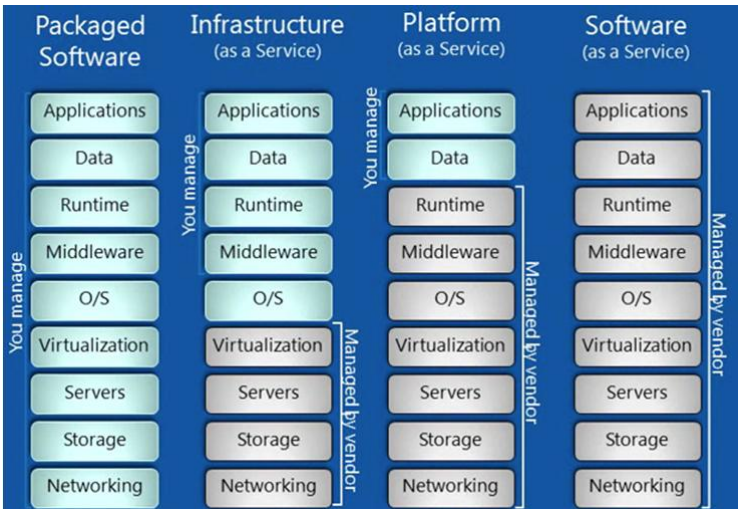
*The woods are lovely, dark and deep.
But I have promises to keep,
And miles to go before I sleep,
And miles to go before I sleep.*

Innovating a Market

By Sandy Salty, VP of Education Services

A Timeline

I love this picture and wish it were my creation...

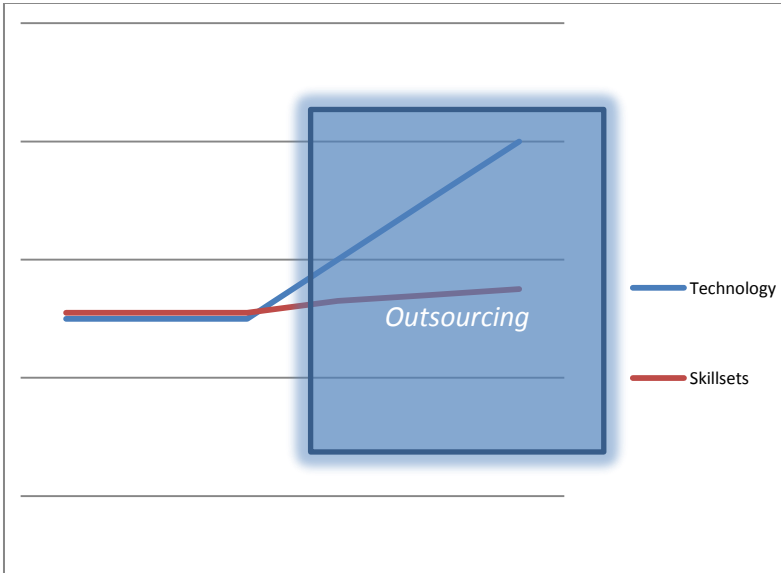


When you first look at this you may be pleased by the fact that this diagram cleanly defines all of the “as-a-Services,” particularly in a way we and our clients would care to have it defined. When I look at this picture, I see a timeline. I see the future of our industry depicted in a very simple way. I see the grey boxes growing in each column as steadily increasing lost market share and potential market share for Trace3. But alongside this loss, there is greater opportunity. This opportunity lies in two hidden constants in each of these software layers.

Hidden Opportunities

The hidden constants or opportunities are *change* and *people*. Where you see the words “manage” or “managed”, there exists tremendous opportunity for Trace3. This opportunity is materialized with our Human Capital Services.

Our clients are witnessing the change in the industry with technology convergence, but they are not seeing a congruent evolution with their own teams. I believe that that is when outsourcing occurs: when the rate of technology evolving and converging is much greater than the rate of skillsets evolving and converging.



Our ability to help our clients achieve organizational change to catch up with technology changes and using “training” as the catalyst to do so will be a huge long-term differentiator for Trace3 if we make the right investments in 2013-2015. My perspective on Trace3 Professional Services is that they

are essentially our “People-as-a-Service” offering, where clients are making investments in the technology and leverage our expertise for project or technology-specific services as they need it. Our Education Services, specifically programs like ScaleThem, are our “Leadership-as-a-Service” offering, where clients are making investments in people and leverage our expertise for organizational-specific services. Sound a bit lofty and idealistic? Who would actually pay for something like that?

“War For Talent”

A Trace3 Fortune 15 client who happens to be the nation’s largest health-care provider would. Many of our cloud services clients would. And the list goes on.... This health care provider met with the Education team and wants Trace3 to run a big and long-term internal “People Project” or campaign to transform their currently highly federated IT into a centralized IT. The federated state is due to the fact that this company is actually 12 different companies grossing approximately \$126B. One of those companies is an IT company and is 70% of that revenue at \$90B. Their CIO, wants the entire organization to prescribe to four high performance behaviors: (1) Driving for results; (2) Agile thinking; (3) Alignment and (4) Trust & Collaboration. Adopting these behaviors is not the end-goal; these behaviors will be the criteria for being a part of their team. The end goal is to get the 11 different companies to use this company for all of their IT needs and the CIO knows that to do that, his team needs to differentiate itself with its Technology, Process and “most importantly” its People. He strongly believes that a program like ScaleThem where cross-disciplinary education is a focus in order to have skill sets converge alongside the technology solutions they develop can do that.

The VP of System Engineering at a client e-mail hosting company told us about a plan he is developing to help him with the constant “war for talent in IT” that he has to deal with. He explained to us that he has an incredibly difficult time find top talent and when he does, they are well above market rate and that that is not a sustainable hiring model and neither is the rate at which he is filling open reqs. His solution for this is to implement a “promoting from within program”, eerily similar in concept to ScaleThem, that he took months to develop and begins with a bottom-up training program beginning with entry-level NOC employees to shape them as IT generalists from the get-go.

Ahead of the Game

When I talk to clients, so many of them would like to train their team members on the cutting-edge technologies and concepts (e.g. Cloud, Big Data, Agile Dev, etc), but the gap between technology development and skill set has grown enough that they need and have to start with product. This not only puts Trace3 in a great position to help them since that is our sweet spot, it puts us far ahead of the curve in comparison to other SIs and VARs. The education and functional training market is a fairly untapped market. There are very few SIs and VARs that have an education division and those that do, have not taken the time to truly develop it. You may ask: “What about the Global Knowledges or Fastlanes of the world who do training and only training?” We have two major advantages that they do not: (1) we have a far more intimate knowledge with the client environment than they can possibly ever have; and (2) we have convergence experience that they do not have. They are perpetuating the silo’d reality of IT-the very thing that will end IT organizations.

However, simply because we are ahead relative to other SIs does not mean that we don't have a lot of work ahead of us in 2013 and 2014. There are some strategic and tactical objectives that we must achieve if we want training to be a legitimate contributor to Trace3's profitability. Now, back to the objectives, it occurred to me that there is a path of least resistance available to the Education team that we will be pursuing aggressively in 2013.

Objective #1: Focused Growth

Our BAM teams are led by individuals who not only see the value of training and education; they rarely architect a solution without Human Capital Services. Our plan in 2013 is to augment our education suite with Cisco and EMC education services and align ourselves to grow with the BAM businesses.

Objective #2: Put Your Money Where Your Mouth Is

In order for Trace3 to truly weave training and education into its DNA, the entire organization must know how to sell AND deliver training. The sales team is currently being steered to this new market and their compensation has been redesigned with focus on Human Capital Services. The other factor of this equation is the engineering team and the ongoing replenishment of training resources. It is clear that in order for us to have a thriving training organization; we need to have training delivery resources in every region. In fact, every post-sales engineer should be able to deliver at least one type of training by the end of 2014. This will be achieved through a phased approach, but it is necessary, because this will not only greatly improve the overall quality of life for existing trainers and greatly reduce the cost we incur for contracting third party trainers and instructor travel, it will also greatly improve the craft of our post-engineers as well.

Additionally, to position Trace3 Education Services as a true “enablement” vehicle, we must continue to augment our education offerings with new industry concepts and technologies. To help achieve that, we will be requiring that every region contribute to that objective by developing an education course for subject matters such as Big Data, cloud technologies, etc. These courses will not only serve to educate clients on new concepts and technologies, but also to keep Trace3’s knowledge of industry trends current. The Education team will be working in conjunction with Terri’s team to develop and communicate plans to achieve these objectives.

Objective #3: Good Footprint, Increase Spend

Here is an interesting fact: in 2012 we sold training into the majority of Trace3’s top accounts. In fact, of Trace3’s top 65 accounts in 2012, we sold training into 70% of them. For a new Trace3-developed product, that is quite an achievement. The goal for 2013 is to penetrate the mid-tier and grow our share of wallet within the top 65 accounts.

Fk Training**

So if training is such a great industry why doesn’t other SIs invest in developing their own? The overly-simplistic but true answer is that it’s not easy. There is a substantial investment required to truly build a state-of-the-art training division. We’ve managed to do it with a lot of hard work, creativity and amazing talent such as Corey Egan, Adam Sekora, Bryan Moss, Ron Cameron, Jon Friese, Avi Drabkin, Ray Holman and many more. The other very candid answer is that “training” is the un-sexiest word in IT. The reason was alluded to previously-Training is always behind, because skillsets are behind. When Trace3 can truly get to

the point where we stop doing the training that is easy for us (i.e., product training) and focus on developing the content that keeps them ahead of the “as-a-Service,” that is when you stop calling it training and start calling it transformative education. Much sexier!

Marketing for Dummies

By Todd Gallina, VP of Marketing

We're Better Than You.

Well maybe not engineering - we suck at that. We also would never make it in sales or project management at Trace3. You have us beat there too. But the stuff we're responsible for, we're very good at. VERY GOOD. It's a low-down dirty shame it's not being taken full advantage of.

The other day I was asked to create a PowerPoint presentation for Hayes to deliver to a client. No problem - I love doing that stuff. We white boarded the message, made some changes, made more changes, and then I retreated to my office to work on the slides. He yelled from his office "make sure it fits nicely into the deck that they already started." I opened the deck and it was terrible - 20+ slides on a 4yr old template. Seriously? This is what our CEO was about to show to a CTO at a major client?

I finished my version, complete with animations and using the current Trace3 standard templates, and sent it to Hayes as he ran out the door then sat wondering... why did that have to happen? Why didn't they use our latest deck to begin with? And why the hell do we have only 92 sign-ups for the EBC? And why do I have a staff that does great design work and events if people aren't going to take full advantage of them?

After I settled myself by running my fingers repetitively through my luxurious hair, I started to really wonder what was behind this disconnection between the products the Marketing team is constantly churning out for Trace3, and how the company is actually consuming them. And it hit me – Marketing often times is taken for granted, and is often

overlooked because of a lack of awareness of what we really do and how we contribute to the everyday business at Trace3.

And that's OK-but it will **no longer** be the case from this point forward. ☺

As you know by now our battle cry is “**To be relevant in the post-VAR era.**” The good news is the Trace3 Marketing team has never considered itself a marketing team for a VAR so we're already a little ahead of the game. The products we've been developing have always been way out of the traditional VAR league. But what role can Marketing possibly play in such a huge aspiration like being relevant in a super competitive industry against such daunting challenges? Isn't that all on business units that are providing things to clients and directly impacting Trace3's revenue/profits? That's a big part of it sure, but there's also the sometimes-intangible aspect of building success.

I understand Marketing efforts can be overlooked or taken for granted because by the very nature of what we do, sometimes it is by design for us to have a massive impact on the way people perceive us, our company or a product, etc. but without them knowing we were even there. We're like ninjas who slip in under the radar, fill your minds with goodness, then disappear into the night. Except without the swords and black pajamas. And we're better looking with amazing hair. Except Steve who has no hair. Sorry Steve.

But think about many of the things our partners see, hear and do with us that they think is amazing. Now remove Marketing altogether. What does the web site look like? How do the CABs and EBCs run? Do we even have them? How many shitty PPT versions do we have? How many different versions of the Trace3 history/messaging do we

have? What kind of regional events are we pulling off every quarter? How do we do a large-scale roll-out of a new offering in a way that's easy for our clients and partners to understand and consume? Do we run an Outlier Award? GOOD LUCK! ☺ People don't typically look at all those things and say "Dang, that is some amazing Marketing." But you can bet they look at it and say "Dang, Trace3 has their shit together." Ninjas.

Trace3 is not a small company any longer, nor will we ever be again. We are a force in this industry and we are innovating the very market in which we operate. We have the ability to have a profoundly positive impact on our clients' and partners' businesses. People are paying attention. The Trace3 brand is not something to be taken lightly. Our continued building and maintaining of that brand is absolutely necessary for us to be successful in what we are trying to accomplish.

Let's be super clear about something – we don't care about nor are we looking for kudos. That is not what this is about. ***This is about everyone understanding the importance of and value in what we do so when we ask for your help with something, you don't hesitate to give it because you know why it matters.***

Some examples of what we need help with:

1. Get your clients to Events
 - Annual EBC (soon to have a name change)
 - CIO CABS
 - Poker Tournaments
 - User Groups
 - VMWorld event (and the like)

2. Stick to the Standards developed by Marketing and the Leadership Team
 - Trace3 Pitches
 - Trace3 product Terms
 - Logo usage, PPT Templates, Invitations

The EBC is the best example of this. The value an average client will get out of attending the EBC is so huge it's really tough to measure. They get executive exposure to several leading tech manufacturers, VC introductions, emerging technology introductions, talks from industry thought leaders, networking with 100+ of their industry peers, the Outlier Award, and the list goes on and on and on.

If you had to pick one single thing that was going to provide the most value to your clients throughout the entire year, the EBC is by far and away the #1 thing you can do for them.

As an account representative or engineer you should literally be dedicating a week or two in December and January 100% focused on nothing but getting as many of your clients to this event as possible. You'd have to do 10 meetings with them throughout the year to even come close to providing the same level of value-and even then there are things you would not be able to give them that can only be had at the EBC.

So please know that behind most of the daily efforts by Trace3 to accomplish our goals, there is an extremely hard-working Marketing team making sure that things are running smoothly, our brand is continually being polished, and we're not letting any of the special things Trace3 does go unnoticed.

I'll wrap by showing what we'll be delivering in 2013 AND by revealing that Chad made me write about my hair.

Below is what you'll get from marketing in 2013:

- EBC 2013 (happening now)
- 2013 Calendar of Events (Q1)
- Updated Trace3 Terms (Q1)
- New Trace3 Story Deck (Q1)
- Advertising that will be seen & provoke discussion (Q2)
- Continue to connect with the CIO
- Continue to be the front line for Partner Relations

Trace3 can no longer move forward as a bunch of regions explaining the Trace3 story and value proposition 30 different ways. We must move forward as a cohesive team bound to Converged Infrastructure, New Technology and Human Capital Services. More than ever, the marketing department will be the glue that ties it all together. Take the time to engage with us. If you do, I cannot promise your hair will grow faster or longer, but your success at Trace3 will be much more luxurious.

“The GM”

by Timothy Abbott, General Manager, OC/SD

In 2012, Trace3 created the General Manager role. The role has been described in many different ways: Mini-CEO of a Region, Regional Manager, Cultural Leader for the Region, or the guy that looks at P&Ls. For some GMs it has even included the role as DM, PSM or even DEM. While all of these are true functions of a GM, they don't help define why the role of the GM exists. In an ideal world, we would have teams in each region working effectively and efficiently and the role of the GM wouldn't be required. Unfortunately, no matter how hard we try, there is always something that is changing, something that was forgotten or something that is not being addressed. The GM makes sure those issues are being dealt with at the Regional level. The GM is the glue between what the Divisions are trying to accomplish within the regions.

For me, it comes down to three areas of responsibility: health of the Region's finances, health of the Region's people and a communication vehicle for the Leadership team. The GM watches the financial health of the Region by working with Accounting and Finance on P&Ls. The GM is also watching the health of the Region as it relates to keeping Trace3 a Fun, Edgy and Results driven company. The GM is also the communication vehicle for Trace3 Leadership. Communication into the Regions, as well as communication to the Leadership team about what is happening within the Region.

“The GM Role in Trace3's Future - Change”

As you look at the DNA of all of the GMs-we've all held different positions either at Trace3 or in the industry. This

gives us the ability to understand the different lanes and divisions. I personally had the privilege to hold a few different positions through my career. I've been an owner of a company, an IT engineer, a manager, a software developer, a VP and now a GM. Most of my career was directed by my circumstances in my environment. I did what was in front of me or what I thought was best in the moment. Trace3 is at a turning point where in order to thrive and deal with the circumstances in front of us we need to change.

Change is one of those words you either love or hate-and if you are like me it depends on the day. As our industry changes, we can either embrace it and excel or we can do nothing and face defeat. The GM role is crucial to the success of Trace3 so we can adapt as fast as possible and excel in this changing market. In the playbook, the Leadership team has given the Why and How we need to change. They have even outlined what they are focused on and have given us a hill to conquer. The GMs will be responsible to make sure as we get tactical on some many opportunities that we don't lose sight of the forest as we focus on the trees. As they make adjustments, bring clarity and communicate their plans, it is up to the GMs to help the Regions adjust, adopt and make those plans their own.

When we look at all of the amazing opportunities we have in front of us-the GM role will be ever evolving. We'll be reviewing ways to improve the role and help each division drive business into the Regions. We'll be constantly looking for new ways to drive Trace3 culture, solve problems, provide leadership and mentor new hires. We'll help augment at a regional level all of the work that Josh, Terri, Chad, Sandy, Todd, Nate and Hayes have in front of them as we make Trace3 relevant in the post VAR era.

In Closing

Youth Sports

My oldest son was one of the best soccer players on his Youth Soccer Team. He is 8 years old. It is pretty fun to go to his games and watch him as his confidence builds. His cousin is also on the team and they are the ones that really make or break the team. My brother came to me and said that since they were showing such strong interest we should take them to practice with a club team.

I came home for dinner the night of that first club practice and asked my son how it was. He told me he really did not like it. I was pretty surprised since soccer is clearly his best sport. I decided to go to the next practice and see what was going on.

I found out the kids on the club team had been together since they were six. I discovered this as I watched them run circles around my son. He would charge at them, running to where the ball was, and they would smoothly use the outside of their foot and maneuver right around him. Then I watched the coach pull him and his cousin to the side and give them some pointers. The pointers didn't really take...

A month later I dragged him to the official tryouts for the team. There were three spots available and I knew that if he wanted to play in high school he was going to need to be able to keep up with this group of kids. The youth league he was in just did not have a strong enough coaching or peer group to get him to a really competitive level.

In the scrimmage one of the best kids came down the field with the ball and my son was the lone defender. I waited for my son to charge to where the ball was and then have the kid

easily dribble around him. Then something awesome happened. My son slowed down as the ball approached and he took a defensive stance ready to see what the kid on offense would do. A huge smile broke out on my face. He had figured out that running as fast as you can to where the ball WAS gets you passed by.

Slowing down and moving to where the ball was going to BE, that made him a valuable player.

Wayne Gretzky may he said it better. “A good hockey player plays where the puck is. A great hockey player plays where the puck is going to be.”

The Fighter Still Remains

Hopefully it is self-evident why I tell this story. Trace3 understands where the ball is going to be. We now must have the battle within and decide as an entire organization whether we will move there. We must decide whether we will be valuable players in the new market.

I hope now you can see and feel what I have known for many months. I have a team to lead this company. I have a team that understands the Why and has now delivered into your hands the How.

*The odometer at Trace3 has flipped. We forge ahead today as if it were day one of our existence. Instead of three people as it was 10 years ago - it is 300 people. Instead of one leader, I give you Hayes, Nate, Josh, Terri, Sandy, Chad, Todd, Timothy, Tony and James. The book is longer. The plan is more defined. One thing remains true - ***the execution of that plan is in your hands.****

It is the individuals in the company that make it great. They are the ones who lift each other to new heights. Trace3 rises or falls on each of your shoulders.

I will finish with this since it rang so true when we wrote it at the Leadership offsite. I hope it does for yours as well.

Trace3 exists to strive for greatness and to innovate the markets we choose to impact.

Trace3 will be relevant in the Post VAR Era.

The Fighter still remains...

Thank you,

The Entire Leadership Team