

Attrition Measurement – Developing Meaningful Trends

Overview of 2006 Results

TRG Associates, in conjunction with a growing number of small on up to larger national security companies, continues to accumulate annual Attrition results. With the Study in its sixth year and the results including over \$60M of Recurring Monthly Revenue (RMR), the consistency of companies' reporting continues to enhance our insight into the Attrition trends within the Security Industry based upon this sample. The Study seeks to provide a measurement of the Attrition results across the US and International marketplace as to the level of Customer RMR losses (Gross Attrition) and the offsets to those losses thru resigns of like customers/locations and other increases in the RMR related to the same base of customers (Net Attrition). We at TRG wish to thank all the participants for their extra effort in assisting with this Study.

Overall in 2006, Gross attrition figures continued to decline over the previous year's results for the second year in a row. The Average Residential/Commercial Gross attrition figure was lowered to 11.56% and the Average Net attrition figure came down to 8.06%.

The Dollars of RMR are broken down by Geographic Region, Size of Company, Initial Customer Source and Service type. While the number of participating companies continues to grow, a large percentage of similar participants are included within the results over the last three years. On a national scale, the results since 2004 have the added benefit of being broken down by respective Branch in some cases as to geography, size, etc. This breakdown has helped isolate the impact on Attrition within the regions of the US due to the damaging effects of the natural disasters that the US suffered through in 2005. In the International category, we have been fortunate to continue to expand our Study into the European community.

The Southeast US experienced the most improvement in the 2006 attrition results as a good deal of that region continued to recover from the Hurricanes of 2005. Some of the participants segregated their Attrition Tracking systems to isolate those losses and subsequent "resigns" as commercial and residential customers came back on line. Those same participants continued to experience "resigns" in those hardest hit areas into 2006 but the results for 2005 reflect the RMR losses in those areas based upon "performing customers". For the second year in a row, the attrition results continued to improve and the difference between gross and net attrition continued to narrow as "Resigns" continue to improve at almost every company that reported that breakdown this year. A number of the Study participants who measure their "resigns" and like customer movements demonstrated a continued improvement in their results versus the 2005 results. On average, for those companies that tracked "resigns", the retention percentages approached 37% for "like customer" and 44% for "like location" resigns.

Within the Company Size category, we had some companies grow out of the 101-200,000 RMR level through acquisitions. The compliment of participants in this case

made a significant impact on the reduction in this category and on the increase in the next category above while not including acquisition losses in their attrition figures that were covered by a Holdback. The Net Attrition by Source-Traditional decreased dramatically and for the first time each Source category settled in the 8% range for Net Attrition. The Dealer and Mass Market categories have continued to come into the same attrition range as the years since the customer origination have passed and the remaining customers have matured into the same customer profile.

More of the participants continue to expand and refine their tracking of the Reasons for Cancellation. We added the new Cancellation reason – Natural Disaster in 2005, given that a number of participants who were impacted by the Hurricanes had expanded their internal tracking systems. The leading Reason for Cancellation continues to be “Moves Within and Outside” of the marketplace (combined 46%). There was a significant percentage increase in the “Lost to Competition” category while “No Longer Using System” remained relatively steady versus 2005 at 11.3%. As we saw the impact on the Net Attrition reductions due to Price Increase, we also saw a decrease in “Price Increase Rescinded” as a Reason for Cancellation (1.3%). In a number of instances, participants monitored the RMR Price Increase rollbacks within this category rather than including the original RMR lost from a customer due solely to a Price increase, thus the category is also more indicative of the net Price Increases realized. On a percentage basis, because most of our participants segregated the Price Increase and the roll back/losses, it appears that the price increases continued to be effective based upon the “net acceptance” by the respective customer bases.

This Study will be updated again at the end of 2007 with the assistance of the existing participants and any new companies that would like to join the Study. Participation in this Study is at no cost and we maintain the strictest of confidence as to the individual company results.

Please do not hesitate to call John Brady at TRG Associates or Celia Besore at CSAA for information on how to participate in this Study for 2007.