

MAY 10, 2004

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

THE FOLLOWING REPORT IS EXCERPTED FROM
THE WALL STREET TRANSCRIPT

COMPANY INTERVIEW

ADAM ARONSON
Arrowsight, Inc.

NOTICE

The Wall Street Transcript does not in any way endorse or guarantee the accuracy or reliability of any of the information, statements or opinions expressed in the reports or comments of other firms or individuals. We take due care to report or transcribe accurately what has been written or said by others but because of the possibility of human or mechanical error, we cannot assume any liability for the correctness of the transcription. We point out further that, of course, all opinions expressed are subject to change without notice. Neither the information or any opinion which may be expressed constitutes a solicitation for the purchase or sale of any securities referred to herein. For further information, contact the individual or investment organization concerned.

CHIEF EXECUTIVE OFFICER FORUMS/INTERVIEWS

Important Note: Wall Street Transcript forums and interviews with Chief Executive Officers are published verbatim as editorial content and include "forward-looking statements" (as such term is defined in the United States Private Securities Litigation Reform Act of 1995). These "forward-looking statements" may be subject to and be made pursuant to the "safe-harbor" provisions of Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. Since these statements are based on factors that

involve risks and uncertainties, actual results may differ materially from those expressed or implied by such "forward-looking statements". Such factors are often included in the company's filings of reports with the United States Securities and Exchange Commission, including Forms 10-K, 10-Q, 8-K and Proxy Statements; the company's annual and interim reports to shareholders and similar documents. In carrying out our responsibilities to our readers and to the Chief Executive Officers selected for forums or interviews, we are required to offer, and we offer, each Chief Executive Officer an opportunity to back-up the interview and provide our readers and potential investors with specific financial data, including earnings statements, balance sheet statements and other material business and financial data, through the sponsored publication of such reports or highlights therefrom, with meaningful information.

Founded 1963
Published by Wall Street Transcript Corporation
67 Wall Street, New York, NY 10005
Copyright 2004 Wall Street Transcript Corporation
All Rights Reserved

Arrowsight, Inc.



ADAM ARONSON is Chief Executive Officer of Arrowsight, Inc. Mr. Aronson also founded ParentWatch in 1998 and co-invested the initial \$750,000 of seed capital into that company. He is the Managing Director and sole owner of AC Capital Management, LLC, an investment company that he founded in 1997. Prior to that, from 1994 through 1997, he was Managing Director and co-Founder of Microquant, a currency-trading fund that managed over \$50 million in assets. Prior to his entrepreneurial undertakings, Mr. Aronson worked as a currency trader at Credit Suisse First Boston from 1991 to 1993 and at PaineWebber from 1993 to 1994. Mr. Aronson received a BA from the University of Vermont.

SECTOR – BUSINESS SERVICES

(YAC621) TWST: Would you begin with an overview of Arrowsight and your history as founder of ParentWatch?

Mr. Aronson: About six years ago, we founded a company called ParentWatch, which was in the business of putting cameras and video servers into childcare centers that typically served more than 100 children.

ParentWatch provided a Web-based service so that parents and grandparents around the country and around the world could remotely access a single Website, www.parentwatch.com, and securely see live video images of their children while they were at the childcare center. It was a service centered exclusively on a single industry, with a single purpose — to provide a few moments every day for parents and children to be connected. ParentWatch began during the dot-com era. We raised quite a bit of money and achieved extensive market penetration of about 2% of the overall childcare market utilizing a number of different Web service offerings. At our peak, we had in-

stalled over 5,000 cameras in the field and upwards of 20,000 different parents were using our Web services. It's a business we continue to run today, and it was a great platform for understanding how to enable remote services so that people could effectively see and enjoy seeing something remotely — in this case, kids.

In the year 2000, we decided to expand the business beyond childcare, into other commercial marketplaces. We restructured the company away from what you would categorize as a direct sales business model and we partnered with a company called ADT Security Services to develop and market remote viewing technologies. Our thought was that there are business people specifically in the retail market, for example, who are running thousands and thousands of stores. Wouldn't it be great for them to have access — just like the parents — to a single Website that they could go to, put a user name and password in, and to be able to remotely see the stores and to monitor the stores for operational compliance, security compliance, safety compliance and marketing compliance?

Corporate Profile

Arrowsight, Inc.

Corporate Headquarters

W37th Street,
14th Floor
New York, NY 10018

Phone: (212) 869-8282

Fax: (212) 869-4836

Web: arrowsight.com

Corporate Officers

Adam Aronson
CEO

PR Contact

Neil Vineberg
VINEBERG
COMMUNICATIONS
neil@vinebergcommunications.com
631-288-6933

Arrowsight service offerings include:

Arrowsight Remote Video Auditing (RVA), which remotely monitors facilities and reports on compliance with policies and procedures. By providing weekly, customized Video Auditing Reports, customers can more effectively manage business process and operations, reduce shrinkage, and improve safety and security. RVA enables district and regional managers to "visit" and monitor their facilities through the Internet without traveling, making Arrowsight software a virtual management tool.

Arrowsight Remote Guard Tour Software, which provides a highly efficient and quick means for central stations or other remote monitoring facilities to perform customized remote guard tours for numerous locations. Arrowsight remote guard tour software lets the user save and manage relevant clips of video, as well as distribute customized Guard Tour Reports with statistical compliance metrics & video hyperlinks.

Arrowsight Central Station Video Access & Management Software, which allows Central Stations to quickly access live video or pre/post alarm video when an alarm is triggered. Users can easily send an email with a hyperlink of the relevant video clip to the appropriate party.

ParentWatch, Arrowsight's predecessor and a division of Arrowsight, was launched in 1998 to address the childcare market. ParentWatch installed cameras in childcare centers and invested in more than \$20 million to develop remote viewing technology that allowed parents to view their children while they were at work. The infrastructure and customer support software that ParentWatch developed for this business allowed it to become the remote viewing leader for the childcare community.

Corporate Business Description

Arrowsight builds and markets software that networks third party digital video recorders (DVRs) through the Internet and corporate Intranets. The company's services leverage a \$3.6 billion installed base of security video surveillance equipment and address a broad market of new business applications including remote video auditing, remote guard tour services, retail loss prevention, food processing, Homeland Security, manufacturing, and central station monitoring.

Arrowsight has developed a strong indirect sales channel through ADT Security Services, the leading security system integrator and a strategic partner. ADT Security has a dominant share in target security markets served by Arrowsight.

The Arrowsight platform is also compatible with leading security equipment and software vendors.

As we began tailoring the service to retail, fast food, food and meat processing, manufacturing and other marketplaces, we realized that COOs, regional managers, district managers, etc., did not have a lot of extra time to just sit in front of a computer and look at lots and lots of video. So we developed a service called Remote Video Auditing where we look at the video for a client and we deliver compliance reports.

“Arrowsight Remote Video Auditing is currently sold through ADT Security Services, with a suite of services under the private label brand ADT Select Vision powered by Arrowsight. We can remotely monitor a number of different types of industries — retail, fast food, grocery, manufacturing, marketing, and transportation facilities — and then provide e-mailed reports on a weekly basis to those customers.”

Arrowsight Remote Video Auditing is currently sold through ADT Security Services, with a suite of services under the private label brand ADT Select Vision powered by Arrowsight. We can remotely monitor a number of different types of industries — retail, fast food, grocery, manufacturing, marketing, and transportation facilities — and then provide e-mailed reports on a weekly basis to those customers with statistical summaries so that you could see specifically which locations are performing well, which are performing poorly, and specifically within each of those locations, which areas are doing well or doing poorly. Within this report, you not only get statistics, but you also get pass and fail hyperlinks to each and every video event that we looked at on behalf of the customer. Instead of looking at motion video, we first look at still pictures associated with either something having to do with the procedure or something having to do with some type of an alarm event.

So an example of a procedure would be something as simple as, was a store clean? Were food safety regulations followed in the food preparation area?

We might look at 10 different times during a day, 10 still pictures, and if in any of those pictures we saw the store was not clean, we would identify those pictures as fail pictures. They would then be tied back through an automated reporting mechanism feature in our service. An alarm event might be something like a back door opening. For a potential thief, a back door that opens into a parking lot or into a corridor is attractive.

That store might have some very high theft losses and merchandise might be disappearing out the back door. So every time that back door opens, we may be asked by the customer to ensure that the manager was present because if a manager was present, it’s less likely to have been theft. And so our technology is able to interact with a wide range of alarm events.

It might be a cash register transaction that was identified by the corporate customer as being highly suspicious.

An example might be an exception-based event like a \$300 sneaker return in a mall retail store where the event occurred at 9 o’clock at night. In this case, the corporate customer says, “This looks a little suspicious because at 9 o’clock at night, 30 minutes before the store closes, we shouldn’t really be seeing a \$300 return. Let’s just make sure there was even a customer there because oftentimes some of these large thefts are just staff members ringing up their own returns with inventory from the store.” And so, as an example, they will export to our Video Auditing team a list of these exceptions and effectively say, “Go back and look on Tuesday to see if there was a customer at 9 o’clock at night in this store at this particular register.”

Our service makes it easy to review these particular events. These are the two different types of audit services that we provide. We also have another service along the same lines — a remote guard tour service.

The entire ADT commercial sales force, which is about 1,400 people, is now offering the Arrowsight Remote Guard Tour Service.

If a company employs guards in several locations, our remote guard tour service can deliver significant and immediate returns and efficiencies through the use of remote monitoring to periodically observe stores on a live basis.

Instead of having a guard sitting in a chair all day, what if once an hour, somebody from an ADT central station, using the Arrowsight software, looked into that location to assess it as being safe or not safe, secure or not secure? The Arrowsight guard service is also complementary with another ADT service capability, which is two-way voice capability. There are several security features that deliver a significant return on investment.

A guard typically costs about \$60,000 a year in a retail environment. A company might be able to reduce that expenditure by \$30,000 to \$50,000 depending on what kind of frequency they wanted ADT to remotely view a location using our tools.

The remote guard tour service is a way to save money and still maintain a highly secure environment. So that's sort of the high-level summary of the company, our history and some of our key products and services.

TWST: Is Arrowsight compatible with existing video equipment that's used for security applications?

Mr. Aronson: We are compatible with a broad range of equipment and data software.

Customers can use their existing video monitoring investment using our service. There are

two main components of a video system. One is the camera and the other is a recording device that records the video and then acts as a remote server for the cameras. The cameras need to record to a device that used to be a VCR. Today it's a DVR (digital video recorder). There are two leading DVR manufacturers; one is Tyco and the other is General Electric. They are the number one and number two manufacturers of digital recorders. Our software is compatible with those brands of DVR and that accounts for roughly 50% market share in the DVR space. We are able to utilize any existing cameras that are in a store or at a food processing or manufacturing facility. The cameras that we can work with range from something as simplistic as an old black and white analog camera, to color analog cameras and all the way through to any digital cameras with pan/tilt/zoom, etc.

“Remote video auditing increases compliance behavior among staff working in a meat plant, a grocery store or a fast food restaurant. What we try to do is to understand where things break down operationally, what are the critical components of a business, and we place cameras at these critical control points.”

So anything that's existing in a location as it relates to cameras we are compatible with. In a lot of cases, the large corporate customers that have been buying DVRs over the last couple of years have been buying DVRs made by GE or Tyco. And so we are immediately compatible. Over time, we will be making an effort to be compatible with all the top selling brands of DVRs. The other existing security infrastructure that we are compatible with would include alarms. So, for any burglar alarms, we have tools that provide compatibility. We are also compatible with electronic article surveillance systems — called EAS.

These are the tags that you see on clothes that set off alarms when you walk through alarm pedestals in the front of a store. We are also compatible with all cash register software. Let's say a large corporate customer has 5,000 registers across 1,000 stores. They typically have some type of register transaction software that data mines for suspicious transactions, which we call exceptions. That example I gave a little earlier of the 9 o'clock return at a retail store might show up as an exception. Switching gears, we have an entire initiative based around the food industry, both on the retail and the supplier sides.

In that environment there are often temperature alarms. In a refrigeration storage area, if the temperature rises or falls by a certain amount, they are going to want to have us check to make sure that certain events have occurred on the basis of that alarm. We can interface with temperature and other gauges. In fact, there are really no limits on the amount of data and hardware that we can interface with. So to summarize the point, we are compatible with all of the cameras and we are compatible with the majority of the DVRs being sold today in America.

"With remote video auditing, we can observe customer behavior at a particular product display and report back to a client. In the retail food market, there is discussion among top grocery retailers about asking their suppliers to use remote video auditing so retailers can audit the performance of their suppliers in relation to food safety."

TWST: Can you describe the other market sectors that could benefit from Arrowsight's remote video auditing service?

Mr. Aronson: In addition to the food industry, our service offers benefits across market

sectors served by the security industry. These would include utilities and chemical industries, including electric plants and nuclear plants.

Our service adds a critically important level of compliance and oversight at government and private utilities that manage power and water filtration systems. We are also focused on delivering Homeland Security applications across the transportation industries. We are tightly linked to ADT's Homeland Security initiatives. In addition to the security and safety benefits, our business philosophy is that irrespective of the industry we serve, we are able to help customers save money and gain a powerful return on investment. In other words, the service pays for itself very quickly, through cost and efficiency savings. Finally, we also bring to the table experts in each industry that we serve. In the retail sector, we have on staff a former senior executive from Wal-Mart. We have experts from leading grocery and meat processing companies. We ask our experts, "How can video services make our customers money?"

What we find is that remote video auditing improves compliance behavior among staff working in a meat plant, a grocery store or a fast food restaurant. What we try to do is to understand where things break down operationally, what are the critical components of a business, and we place cameras at these critical control points. At a meat processing plant, we can put cameras on the grinding and blending areas, because it's very important to make sure that the meat blending process is conducted in a specific order because if it's not, you might have to throw out a 10,000 pound batch of meat that costs \$2 a pound.

When you are running a \$50 million to \$100 million meat processing plant, that sort of recurring waste is devastating.

If that happens once or twice a week, those numbers add up to millions and millions of dollars in lost goods. It may be due to a breakdown in the training process or the need for better monitoring of operational procedures. Remote video auditing can help to identify where breakdowns occur and give regional managers all the way down to a plant or a line manager the evidence that they need to coach their staff and say, “Hey, you are doing an absolutely great job over here, but let’s make sure that we are providing you the kind of training and guidance that you need to make sure that we don’t lose another 20,000-pound batch of meat.” Studies have shown that monitoring combined with coaching significantly improves employee performance and retention. In the fast food sector, we have installed remote video monitoring systems at McDonald’s fast-food franchise restaurants and documented significant improvements in operational efficiency and food safety.

“We do the work for the customer in terms of reviewing video and then essentially share the result in an easy-to-read report, kind of like a compliance scorecard, with pass/fail statistics and scores. It says, this store scored an 87%, this store scored a 47%, and within that 47% store, we looked at four areas; two did really well and two did really poorly.”

Here you’ve got a business centered around time-in-line; that’s really a major focus. How can we get lines moving quicker?

Because, think about it, you drive up to a drive-thru lane and if there is a wall of cars, you might drive away. If you walk into a store and the line is winding out the door, you might just go right back to your car. And so there is a culture within the store around trying to make the lines move quicker. What we have done is to use remote

video auditing to realize a 30% improvement on time in line, which combined with a number of other different applications that we have worked on with the McDonald’s franchisee, equals about \$35,000 a year in net benefit for a store that does \$1.5 million to \$2 million worth of business..

Remote video auditing also helps to significantly reduce shrinkage in retail stores, and again, it just has to do with using our reports and coaching people to do the jobs that they have been trained to do, making them feel acknowledged and rewarding for doing a great job when they do a great job.

Finish Line is a 500-store shoe chain, similar to Foot Locker or Athlete’s Foot. Within four months of employing our remote video auditing services, we realized a 63% reduction in the shrinkage in store based on inventory.

If a store does \$2 million of revenue and they lose 5% to shrink, that’s a very large loss of about \$100,000 a year.

We cut that in half, realizing a \$50,000 net benefit in only one store, for example. We have seen, over the course of many years, a 50% to 75% reduction in shrinkage due to getting the store staff and the managers to comply with very basic security procedures that are designed to reduce theft — specifically, internal theft. The most fascinating data point is this: guess how many people we caught stealing in that four-month window?

Not a single person. It all had to do with giving the staff the perception that there was a remote video auditing service and that they were really going to be held accountable for their work. We counsel all our customers to embrace the things that employees are doing well and to combine monitoring with coaching to improve performance. It is just as effective to call somebody and say, “You are doing a great job,” instead of saying, “You are not doing a great job.”

We are also working with Pfizer on R&D related to consumer behavior in drugstores. With remote video auditing, we can observe customer behavior at a particular product display and report back to a client. In the retail food market, there is discussion among top grocery retailers about asking their suppliers to use remote video auditing so retailers can audit the performance of their suppliers in relation to food safety. Right now, most major grocers that private label their own food products send inspectors to a plant once a year and evaluate that plant for compliance with food preparation and food safety protocols. With remote video auditing, instead of sending an inspector once a year, retailers can monitor a food processor's plant throughout the year. Why would they want to do that?

Well, it's simple. It takes only one instance of food poisoning attributed to a major grocer's brand to potentially destroy their brand. So we are really seeing a lot of different applications evolve very, very rapidly here with the advent of remote video auditing and there is a tremendous amount of momentum building for the use of video services.

Again, we do the work for the customer in terms of reviewing video and then essentially share the result in an easy-to-read report, kind of like a compliance scorecard, with pass/fail statistics and scores. It says, this store scored an 87%, this store scored a 47%, and within that 47% store, we looked at four areas; two did really well and two did really poorly.

You then know who to call regarding a problem and what to talk about, essentially, to resolve it. Even before you examine the pass/fail hyperlinks to the video, you know exactly where your problems are. And so the goal is to use these compliance scores to improve operational performance from bad to good. Over the last year-and-a-

half, among our pilot and paid customers, we have seen compliance scores in problem stores start off at 25% to 50% and within six to 12 weeks, rise to over 80% to 90%, and stay there. When employees feel like they really need to perform well every day, our statistics prove that they actually do.

TWST: Tell us more about your relationship with ADT?

Mr. Aronson: ADT has been a valued partner of ours for several years going back to the ParentWatch days. When we installed cameras and servers into childcare centers, ADT was our exclusive vendor. We were their customer. When we decided to expand our business beyond childcare, we initially called on them as their customer. We said, "As your customer, we showed you new commercial opportunities for video services. Would you be interested in partnering?"

One of the biggest challenges in running a venture-backed company is that if you have to have your own sales force, it gets extremely expensive, extremely quickly. And so the concept of working with the ADT sales force to resell our services under a private label was very attractive to us, and it was very attractive to them because ADT doesn't operate an R&D department. Their business model is to partner with companies like ours. ADT has been a terrific partner in terms of working with us to develop these applications. The nature of our relationship is very deep. We have a terrific relationship with the top executives in the company all the way down to the people who sell the services and install the services. We work with the product and installation departments, we deal with tech support, we deal with their central station monitoring department, we deal with their marketing department very extensively and obviously we partner with their sales force. So we are very excited about our partnership with ADT. This week, 1,400 ADT sales

people were briefed on our new Remote Guard Tour service, branded as ADT Select Vision powered by Arrowsight. We didn't have to hire any sales people to bring this technology to the security market. This is something that ADT is reselling. Our relationship with ADT from a financial perspective is productive and beneficial for both parties. So we are all very excited about the upside of our Remote Video Auditing service, Remote Guard Tour services, and we are working on many other services with ADT in the coming years.

TWST: How close are your fortunes related to those of the general economy?

Mr. Aronson: Had you asked me that question a couple of years ago, I would have said we were pretty closely tied. Our Remote Video Auditing service is really a must-have because of the proven return on investment for the customer. For example, if you are hiring guards to monitor your premises you could be spending \$60,000 for each a guard.

With Arrowsight you can offset that \$60,000 guard investment with \$10,000 or \$20,000 a year of remote video services. We hand \$40,000 to \$50,000 of immediate savings to the customer. Even though the economy is turning around right now, companies, big retailers are still cost cutting. Big retailers continue to look for ways to reduce costs. So I think as the economy continues to do well that obviously benefits us, but I think that we have come up with solutions that are not only terrific from a return-on-investment standpoint in terms of producing and selling more, we have also got some really great solutions to reduce overhead. We recently had a discussion with an executive in the meat industry who said, "I have 36 quality assurance people who work in three plants monitoring food safety. They walk around to make sure that staff are doing their jobs

safely." He added, "10% of my resources are spent watching people clean their hands during shift changes. There's a very strict cleaning procedure." He said, "With your video, I could reduce 10% of my overhead like that and it will cost me probably a fifth of what I currently spend on those people to have you remotely monitor to make sure that the sanitizing procedure is being followed correctly." So I think that the not-so-short answer to your question is that the savings aspect of what we do will provide a lot of benefits even in markets that aren't so strong.

TWST: Can you tell us about the background, and expertise of some of the key members of your management team?

Mr. Aronson: I come from the finance world. I worked at Credit Suisse First Boston in the early 1990s and then ran different currency hedge funds. In the mid-1990s, I moved from finance to technology. In the late-1990s I started investing my own money in ParentWatch, along with a number of my peers and my former employers. You could say I am sort of a career entrepreneur. I am very committed to this business and to where we can take it. So I've taken the successes of my background, in terms of creating my own hedge funds, and translating that into the very dynamic environment that we have here. I am partnered with some very special and important people. The number one person is Lambert Wixson. Lambert is a PhD with a very strong background in video processing. He came out of a company called Sarnoff, which is one of the top video labs in the country. He holds nine video patents and is sort of the chief architect here. His title is CTO, Chief Technology Officer. All of the patents that we have filed are authored by Lambert and his team. He manages a tremendous staff formerly with several top technology firms. We have two top former executives

of Westec Interactive, the leader in remote guard services. Their former Head of Operations, John Varnau, is now our Chief Operating Officer. A top former sales executive from Westec Interactive, Jackie Andersen, is our Senior Vice President of Sales. We also have several key advisors on staff. Dave Gorman is a former Senior Vice President of Loss Prevention and Quality Assurance at Wal-Mart. He served there for 22 years and has an extensive network in companies like Wal-Mart and others where other Wal-Mart executives have dispersed over the years. Arnie Mikelberg is a former President of Armour Swift, a very large division of ConAgra, a meat company. Arnie has served as President of numerous other meat companies and he is driving our meat industry initiative. Dr. Al Baroudi heads up our food safety initiative. Al is the former Head of Quality Assurance, which is defined as Food Safety, for The Vons Companies and also Borden. He has held top consulting posts at a number of major firms, including Yum! Brands. Finally, Bill Kies is the former President and COO of a 4,000-store grocery chain called IGA Worldwide.

Our senior management team and consultants work closely together to tailor our services to a variety of market segments. Between this network of executives and consultants, we are able to reach executives of top companies on all sides. What has emerged are very interesting collaborative alliances between the retailers and the suppliers that may eventually evolve into circumstances where retailers on the grocery side might be able to provide access to cameras in their stores for suppliers to do things like what Pfizer is doing. We are also developing some very interesting overseas opportunities that have to do less with food and more with apparel manufacturing. There has been discussion about installing our remote video auditing

service in Third World, low-wage manufacturing plants that are sometimes scrutinized in newspapers like *The Wall Street Journal* for labor abuses. Our remote video auditing services could help ensure that underage kids are not working in factories and ensure acceptable international labor practices at all times.

TWST: Can we go back to the funding history of Arrowsight? Are you well funded at this point? Do you have the balance sheet in place to accomplish all of your goals?

Mr. Aronson: Yes. We have been very well funded throughout our entire history. We have a number of key investors. The largest among them is a group called Oak Street Investments. Oak Street has been with us for over five years. They have continued to be our lead investor throughout the troubled times in the technology market, between the years 2000 and 2003. We have a really terrific partner in Oak Street. We also have a terrific partner in a company called American Pacific Financial Corp. They have been involved with Arrowsight for about two years. The main principal of American Pacific is a gentleman who owns a number of different companies; he has helped us understand a lot of the applications that we are currently bringing into market. He understands the food industry. He brought us our food safety expert. So we have two strong lead investors. We also have several private investors — people from my former finance world, high-net worth individuals who have continued to support us in very meaningful ways.

TWST: Is there an IPO in your future?

Mr. Aronson: An IPO is premature. You could sort of view our company as a restart, having migrated from the ParentWatch business to Arrowsight. We are a privately held company of about 25 people. We have aligned ourselves with

the top companies of the world — ADT/Tyco, GE, and obviously some of the top corporate customers in the country. But we are really just putting our head down, driving our revenue business and driving R&D on new technologies. In the next couple of years we are projecting fairly significant growth in the market segments we are now serving, but right now it's all about building brand presence at the ground level and delivering on our value proposition.

TWST: What's to stop another player from jumping into this space and trying to push Arrowsight aside?

Mr. Aronson: There are definitely competitive forces out there. Some top firms are paying a lot of attention to the video arena. What we are finding, however, is most of the focus is on technology that automates things with video. Object Video is a good example. They are creating applications that identify when very specific things happen in a video image, like a person walking across a sort of invisible line, on an airport runway, for example. Arrowsight, on the other hand, looks at an event like a door opening or a POS register or an EAS register. So our businesses are different. We also have not seen a lot of companies out there that have adopted our business service approach. Arrowsight is also the leader in Web-based remote video applications and this has been proven with the ParentWatch business.

No other company manages as many remote users as we do. One cannot just buy technology like ours off-the-shelf and start a video service business. So our experience and technology are major barriers to entry. Our partnership with ADT is also a large barrier. ADT is owned by Tyco. Before Tyco experienced trouble in the early part of this decade, ADT had acquired pretty much all of its main competitors, including Sensormatic,

Security Link and others. And so the other companies that a company like ours would typically think of partnering with are folded into our partner. And there really isn't a strong number two. Just to give you an order of magnitude, ADT is larger than its next 20 competitors combined, so you have an idea of how big they are. We feel like the six years of deep partnership that we have had with ADT, first as a customer and now as a partner, have put us in a really terrific competitive position. Finally, I think the biggest barrier to entry is understanding what's going on in the customer location. We hire people who are experts in specific areas of our business: food safety, meat and food processing, the grocery industry, the mall store retail environment, and security. We don't guess how industries work; we actually go in the field and learn, and then develop products that deliver. With the ParentWatch business, I personally spent six months in childcare centers learning the way a center works. We learned that kids don't just play in any old place in a childcare room. They play on rugs or around tables. So, 80% of a child's time is spent either on a rug or on a table, which means that if you put two cameras in a room, they better be pointed at those two areas or you are not looking at children, and they better be zoomed in because parents want to see close up shots of their kids. They don't really care about seeing the instructor. You can only learn these things by going out there and getting the information. That's how we do it.

TWST: What could go wrong?

Mr. Aronson: While competition can at times seem daunting, we actually embrace it as it helps validate video services and video as a business application. So we really invite all of this new technology, directly competitive or indirectly competitive, because it is demonstrating that hundreds

of millions of dollars are being invested into these types of businesses. Being from New York City, the primary concern I have is large-scale terrorist acts, which could impact a venture-backed firm like ours. If another terrible event happened, you would certainly see challenges in the capital markets. Think about what happened after 9/11. The stock market went down thousands of points. But the point being is that it would also impact our commercial customers. You might see an immediate halt to new projects. In terms of our ability to execute, that doesn't keep me up at night because we have executed for so many years on the ParentWatch business, so managing remote services is something that we are very good at and we have really got a lot of experience there. I feel that we are on a solid growth track for the next several years and we are really without any direct competition — and that's the best way to put it.

TWST: What two or three reasons would you give an investor to make a commitment to the company?

Mr. Aronson: I think, number one, the potential of what we have come up with here in terms of how we deliver video services combined with the fact that we have got a sales channel in place with ADT, and we can expand that sales channel to many others around the country and around that globe. Number two, we have completed integration with the number one and number two DVRs in the world, and we are capable of integrating with any and all data alarms. Three, we are in a really good position to leverage a service application which could fundamentally change the way in which people manage businesses and employees in general. Fourth, the ROI that we are seeing from small stores to large facilities is extraordinary and it's achievable fast so there really is just an inordinate amount of upside. The real challenge for us is

staying focused on growth sectors. That's why we are so highly focused on the food processing industry, why we are so highly focused on the security initiative around Remote Guard Tours and why we are going after things we really think we can control and where we can deliver high value revenue and high margin revenue. Fundamentally, the technology valuations are still depressed; this is a sort of second reason that one can invest in our company at valuations which are comparable to valuations from a few years back, which are substantially lower. So the upside is substantially higher. It's an exciting time to be talking about a company that has invested over \$35 million in six years, in building technologies, applications, partnerships, and a great team. We think that the multiples in terms of potential upside for an investor are very significant.

TWST: Are there any next stage enhancements, service enhancements or features that Arrowsight will be introducing in the future?

Mr. Aronson: Yes. In the next couple of years many live alarm events across various industries will be linked directly to video using our technology. We will be introducing video verification capabilities. It could be anything from a typical burglar alarm going off to an alarm on somebody's necklace like the "I've fallen and I can't get up" example for an elderly person. You press that button, it will send an alarm and then somebody can see the video of that person on the floor.

A more commercially related example would be an alarm goes off from somebody's assist button necklace that he wears because he works in a 24/7 convenient store in a pretty tough neighborhood and at three in the morning, a gang comes in and he doesn't feel comfortable, so he hits this button and then using our technology somebody remotely sees what's going on, and again, using a

future technology they would be able to hit a button, which would trigger a call and a two-way interaction with that person, saying, “Is everything okay? This is a remote security service. Just want to let everybody know that this location is being remotely viewed and if there is any problem the police are going to be called.” That sort of new age technology is now available. This technology exists and we will be introducing it forward in the coming months. I think in the future, what you will also see are efficiencies and automation tools that we will bring to the market that I can’t really talk about in detail. It will expand on the efficiencies of what we do today.

TWST: Is there anything you would like to add?

Mr. Aronson: The concept of Web services as it relates to video is tying very nicely into the way corporate America is restructuring the way it fundamentally does business every day. I can give you two great examples of how we use services today that make us a lot more leveraged than we ever were in the past. One is a company called WebEx. We do WebEx demos 5 to 10 times a day, and before WebEx came along and, more important, before it worked really well, I used to have to go to every first customer meeting. While with WebEx, I can have a first meeting without having to get on a plane or in a car, wasting 5 hours out of the 10 hours that I have available to do business during the workday. Now I can spend 45 minutes. You and I could have done a WebEx as we were talking and I could have showed you a

live demo. So that’s a really great service. The other example is salesforce.com. In the ParentWatch days, I probably spent about a half a million dollars on a CRM system to track the activities of all our sales people. Well, for \$65 a month per sales person, I have something that is much, much better, that’s Web based, that all of my sales people can input all their information right there. Now, for a few hundred dollars a month I have a better service versus a half a million dollar investment plus a six figure administrator managing the IT architecture behind the CRM system. I have something better that’s probably 100 times cheaper. So, every single aspect of the core way in which we fundamentally sell has changed and is a lot cheaper. And if I told you what our T&E budget is, our T&E budget hasn’t changed much, but the number of customers that we call on, on a monthly basis, is probably up by a couple of hundred percent. Our video Web services fit right into the way in which people are starting to run their businesses across the board.

TWST: Thank you.

ADAM ARONSON

CEO

Arrowsight, Inc.

49 West 37th Street

14th Floor

New York, NY 10018

(212) 869-8282 (ext. 250)

www.arrowsight.com

e-mail: info@arrowsight.com
