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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

Commission File Number 333-110025

MONITRONICS INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

State of Texas	**74-2719343**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1990 Wittington Place	
Farmers Branch, Texas	**75234**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(972) 243-7443**

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

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

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

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

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

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

As of November 6, 2018, Monitronics International, Inc. is a wholly owned subsidiary of Ascent Capital Group, Inc.

TABLE OF CONTENTS

Table of Contents

Item 1. ***Financial Statements (unaudited)***

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
Amounts in thousands, except share amounts
(unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 26,835	3,302
Restricted cash	133	—
Trade receivables, net of allowance for doubtful accounts of $3,630 in 2018 and $4,162 in 2017	13,162	12,645
Prepaid and other current assets	26,794	10,668
Total current assets	66,924	26,615
Property and equipment, net of accumulated depreciation of $45,904 in 2018 and $37,643 in 2017	36,553	32,789
Subscriber accounts and deferred contract acquisition costs, net of accumulated amortization of $1,570,729 in 2018 and $1,439,164 in 2017	1,215,831	1,302,028
Dealer network and other intangible assets, net of accumulated amortization of $48,500 in 2018 and $42,806 in 2017	—	6,994
Goodwill	349,149	563,549
Other assets	36,812	9,340
Total assets	$ 1,705,269	1,941,315
Liabilities and Stockholder's (Deficit) Equity		
Current liabilities:		
Accounts payable	$ 11,636	11,073
Accrued payroll and related liabilities	6,135	3,458
Other accrued liabilities	40,289	50,026
Deferred revenue	12,069	13,871
Holdback liability	10,766	9,309
Current portion of long-term debt	11,000	11,000
Total current liabilities	91,895	98,737
Non-current liabilities:		
Long-term debt	1,795,119	1,707,297
Long-term holdback liability	2,031	2,658
Derivative financial instruments	1,139	13,491
Deferred income tax liability, net	15,291	13,304
Other liabilities	2,701	3,092
Total liabilities	1,908,176	1,838,579
Commitments and contingencies		
Stockholder's (deficit) equity:		
Common stock, $.01 par value. 1,000 shares authorized, issued and outstanding both at September 30, 2018 and December 31, 2017	—	—
Additional paid-in capital	440,050	444,330
Accumulated deficit	(659,383)	(334,219)
Accumulated other comprehensive income (loss), net	16,426	(7,375)
Total stockholder's (deficit) equity	(202,907)	102,736
Total liabilities and stockholder's (deficit) equity	$ 1,705,269	1,941,315

See accompanying notes to condensed consolidated financial statements.

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
Amounts in thousands
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net revenue	$ 137,156	138,211	$ 405,922	419,909
Operating expenses:				
Cost of services	35,059	30,213	100,807	89,799
Selling, general and administrative, including stock-based and long-term incentive compensation	34,266	33,474	98,935	126,759
Radio conversion costs	—	74	—	383
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	52,671	59,384	160,973	178,896
Depreciation	2,880	2,170	8,360	6,415
Loss on goodwill impairment	—	—	214,400	—
	124,876	125,315	583,475	402,252
Operating income (loss)	12,280	12,896	(177,553)	17,657
Other expense:				
Interest expense	39,077	36,665	114,550	108,980
Refinancing expense	5,697	—	5,697	—
	44,774	36,665	120,247	108,980
Loss before income taxes	(32,494)	(23,769)	(297,800)	(91,323)
Income tax expense	1,346	1,767	4,039	5,330
Net loss	(33,840)	(25,536)	(301,839)	(96,653)
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative contracts, net	3,269	227	23,196	(4,501)
Total other comprehensive income (loss), net of tax	3,269	227	23,196	(4,501)
Comprehensive loss	$ (30,571)	(25,309)	$ (278,643)	(101,154)

See accompanying notes to condensed consolidated financial statements.

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
Amounts in thousands
(unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities:		
Net loss	$ (301,839)	(96,653)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	160,973	178,896
Depreciation	8,360	6,415
Stock-based and long-term incentive compensation	751	2,759
Deferred income tax expense	1,987	3,158
Legal settlement reserve	—	23,000
Refinancing expense	5,697	—
Amortization of debt discount and deferred debt costs	5,472	5,065
Bad debt expense	8,511	7,888
Loss on goodwill impairment	214,400	—
Other non-cash activity, net	2,040	4,659
Changes in assets and liabilities:		
Trade receivables	(9,028)	(7,225)
Prepaid expenses and other assets	(9,769)	(1,453)
Subscriber accounts - deferred contract acquisition costs	(4,529)	(2,299)
Payables and other liabilities	(8,568)	3,017
Net cash provided by operating activities	74,458	127,227
Cash flows from investing activities:		
Capital expenditures	(11,513)	(9,999)
Cost of subscriber accounts acquired	(111,531)	(119,081)
Net cash used in investing activities	(123,044)	(129,080)
Cash flows from financing activities:		
Proceeds from long-term debt	218,950	159,850
Payments on long-term debt	(136,600)	(132,500)
Payments of financing costs	(5,015)	—
Value of shares withheld for share-based compensation	(83)	(424)
Dividend to Ascent Capital	(5,000)	—
Net cash provided by financing activities	72,252	26,926
Net increase in cash, cash equivalents and restricted cash	23,666	25,073
Cash, cash equivalents and restricted cash at beginning of period	3,302	3,177
Cash, cash equivalents and restricted cash at end of period	$ 26,968	28,250
Supplemental cash flow information:		
State taxes paid, net	$ 2,710	3,107
Interest paid	95,889	90,637
Accrued capital expenditures	882	386

See accompanying notes to condensed consolidated financial statements.

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Stockholder's Deficit
Amounts in thousands, except share amounts
(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholder's (Deficit) Equity
	Shares	Amount				
Balance at December 31, 2017	1,000	$ —	444,330	(334,219)	(7,375)	$ 102,736
Impact of adoption of Topic 606	—	—	—	(22,720)	—	(22,720)
Impact of adoption of ASU 2017-12	—	—	—	(605)	605	—
Adjusted balance at January 1, 2018	1,000	$ —	444,330	(357,544)	(6,770)	80,016
Net loss	—	—	—	(26,207)	—	(26,207)
Other comprehensive income	—	—	—	—	14,406	14,406
Stock-based compensation	—	—	47	—	—	47
Value of shares withheld for minimum tax liability	—	—	(42)	—	—	(42)
Balance at March 31, 2018	1,000	$ —	444,335	(383,751)	7,636	68,220
Net loss	—	—	—	(241,792)	—	(241,792)
Other comprehensive income	—	—	—	—	5,521	5,521
Stock-based compensation	—	—	383	—	—	383
Value of shares withheld for minimum tax liability	—	—	(27)	—	—	(27)
Balance at June 30, 2018	1,000	$ —	444,691	(625,543)	13,157	(167,695)
Net loss	—	—	—	(33,840)	—	(33,840)
Other comprehensive income	—	—	—	—	3,269	3,269
Dividend to Ascent Capital	—	—	(5,000)	—	—	(5,000)
Stock-based compensation	—	—	373	—	—	373
Value of shares withheld for minimum tax liability	—	—	(14)	—	—	(14)
Balance at September 30, 2018	1,000	$ —	440,050	(659,383)	16,426	$ (202,907)

See accompanying notes to condensed consolidated financial statements.

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

(1) Basis of Presentation

Monitronics International, Inc. and its subsidiaries (collectively, "Brinks Home Security™" or the "Company") are wholly owned subsidiaries of Ascent Capital Group, Inc. ("Ascent Capital"). Brinks Home Security provides residential customers and commercial client accounts with monitored home and business security systems, as well as interactive and home automation services, in the United States, Canada and Puerto Rico. Brinks Home Security customers are obtained through our direct-to-consumer sales channel or our Authorized Dealer network, which provides product and installation services, as well as support to customers. Our direct-to-consumer channel offers both Do-It-Yourself ("DIY") and professional installation security solutions.

The rollout of the Brinks Home Security brand in the second quarter of 2018 included the integration of our business model under a single brand. As part of the integration, we reorganized our business from two reportable segments, "MONI" and "LiveWatch," to one reportable segment, Brinks Home Security. Following the integration, the Company's chief operating decision maker reviews internal financial information on a consolidated basis. The change in reportable segments had no impact on our previously reported historical condensed consolidated financial statements.

The unaudited interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission's (the "SEC") Regulation S-X. Accordingly, it does not include all of the information required by generally accepted accounting principles in the United States ("GAAP") for complete financial statements. The Company's unaudited condensed consolidated financial statements as of September 30, 2018, and for the three and nine months ended September 30, 2018 and 2017, include Brinks Home Security and all of its direct and indirect subsidiaries. The accompanying interim condensed consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the Brinks Home Security Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 7, 2018.

The Company adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("Topic 606") using the modified retrospective approach on January 1, 2018, at which time it became effective for the Company. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings.

The Company adopted ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12") which amends the hedge accounting rules to align risk management activities and financial reporting by simplifying the application of hedge accounting guidance. The guidance expands the ability to hedge nonfinancial and financial risk components and eliminates the requirement to separately measure and report hedge ineffectiveness. Additionally, certain hedge effectiveness assessment requirements may be accomplished qualitatively instead of quantitatively. The Company early adopted ASU 2017-12 effective January 1, 2018, and as such, an opening equity adjustment of $605,000 was recognized that reduced Accumulated deficit, offset by a gain in Accumulated other comprehensive income (loss). This adjustment primarily relates to the derecognition of the cumulative ineffectiveness recorded on the Company's interest rate swap derivative instruments, as well as adjustments to cumulative dedesignation adjustments. The Company does not expect this adoption to have a material impact on its financial position, results of operations or cash flows on an ongoing basis.

The Company early adopted ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). Prior to the adoption of ASU 2017-04, the fair value of the reporting unit was compared with the carrying value of the reporting unit (identified as "Step 1"). If the fair value of the reporting unit was lower than its carrying amount, then the implied fair value of goodwill was calculated. If the implied fair value of goodwill was lower than the carrying value of goodwill, an impairment was recognized (identified as "Step 2"). ASU 2017-04 eliminated Step 2 from the impairment test; therefore, a goodwill impairment is recognized as the difference of the fair value and the carrying value of the reporting unit.

The comparative information has not been restated and continues to be reported under the accounting standards in effect during those periods. See note 4, Revenue Recognition, and note 5, Goodwill, in the notes to the condensed consolidated financial statements for further discussion.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses for each reporting period. The significant estimates made in preparation of the Company's condensed consolidated financial statements primarily relate to valuation of subscriber accounts, valuation of deferred tax assets and valuation of goodwill. These estimates are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors and adjusts them when facts and circumstances change. As the effects of future events cannot be determined with any certainty, actual results could differ from the estimates upon which the carrying values were based.

(2) Going Concern

The Company has substantial indebtedness, including $585,000,000 principal of senior notes at September 30, 2018, maturing on April 1, 2020 (the "Senior Notes"), and an existing credit facility with a term loan in principal of $1,078,000,000 as of September 30, 2018, maturing September 30, 2022, and a revolving credit facility with an outstanding balance of $159,100,000 as of September 30, 2018, maturing September 30, 2021 (the term loan and the revolver, together, the "Credit Facility"). The maturity date for each of the term loan and the revolving credit facility under the Credit Facility is subject to a springing maturity 181 days prior to the scheduled maturity date of the Senior Notes, or October 3, 2019, if we are unable to refinance the Senior Notes by that date. In addition, if we are unable to refinance the Senior Notes, or demonstrate the ability to meet our financial covenants for a period of twelve months after the issuance date, prior to the filing with the SEC of our Annual Report on Form 10-K for the year ended December 31, 2018, we may be subject to a going concern qualification in connection with our external audit report, which would be an event of default under the Credit Facility. At any time after the occurrence of an event of default under the Credit Facility, the lenders may, among other options, declare any amounts outstanding under the Credit Facility immediately due and payable and terminate any commitment to make further loans under the Credit Facility. These matters raise substantial doubt regarding the Company's ability to continue as a going concern within one year from the date these financial statements are issued.

The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. As a result, the Company's consolidated financial statements as of September 30, 2018 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

On September 24, 2018, Ascent Capital and Brinks Home Security entered into a Transaction Support Agreement (which was amended and restated pursuant to the Amended and Restated Transaction Support Agreement, entered into on October 30, 2018 (the "Amended and Restated Support Agreement")) with certain holders collectively owning or controlling not less than $380 million aggregate principal amount of the Senior Notes, representing approximately 65% of the Senior Notes (collectively, the "Consenting Noteholders"). The Amended and Restated Support Agreement incrementally included a group of lenders for the Credit Facility term loan holding over 50% of the aggregate outstanding principal amount of the Credit Facility term loan (collectively, the "Credit Facility Lenders"). The Consenting Noteholders and Credit Facility Lenders have committed to support and fully participate in proposed agreed upon transactions that would result in the refinancing of the Senior Notes, if consummated. See Note 13, Subsequent Events, for further information. While management continues to negotiate refinancing terms with its debt holders, as of the issuance date of these financial statements, Brinks Home Security has not refinanced the Senior Notes and there can be no assurances that the negotiations management is pursuing will result in the consummation of transactions that would refinance the Senior Notes.

(3) Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires the lessee to recognize assets and liabilities for leases with lease terms of more than twelve months. For leases with a term of twelve months or less, the Company is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Further, ASU 2016-02 requires a finance lease to be recognized as both an interest expense and an amortization of the associated asset. Operating leases generally recognize the associated expense on a straight line basis. ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. ASU 2018-10, *Codification Improvements to Topic 842, Leases*, clarifies certain aspects of ASU 2016-12 and the two updates will be adopted concurrently. ASU 2016-02 requires leases to be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach upon adoption. However, ASU 2018-11, *Leases (Topic 842): Targeted Improvements* provides an alternative transition method by which leases are recognized at the date of adoption and a cumulative-effect adjustment to the opening balance of retained earnings is recognized in the period of adoption. We plan to adopt using this alternative and are currently evaluating the impact that these standards will have on our financial position, results of operations and cash flows.

(4) Revenue Recognition

Topic 606 amends and supersedes FASB Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition ("Topic 605"). The core principle of Topic 606 is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Accounting Policy for Periods Commencing January 1, 2018

The Company offers its subscribers professional alarm monitoring services, as well as interactive and home automation services, through equipment at the subscriber's site that communicates with the Company’s central monitoring station and interfaces with other equipment at the site and third party technology companies for interactive and home automation services. These services are typically provided under alarm monitoring agreements (“AMAs”) between the Company and the subscriber. The equipment at the site is either obtained independently from the Company’s network of third party Authorized Dealers or directly from the Company, via our direct-to-consumer sales channel. The Company also offers equipment sales and installation services and, to our existing subscribers, maintenance services on existing alarm equipment. The Company also collects fees for contract monitoring, which are services provided to other security alarm companies for monitoring their accounts on a wholesale basis and other fees from subscribers for late fee or insufficient fund charges.

Revenue under subscriber AMAs is allocated to alarm monitoring revenue and, if applicable, product and installation revenuebased on the stand alone selling prices (“SSP”) of each performance obligation as a percentage of the total SSP of all performance obligations. Allocated alarm monitoring revenue is recognized as the monthly service is provided. Allocated product and installation revenue is recognized when the product sale is complete or shipped and the installation service is provided, typically at inception of the AMA. Product and installation revenue is not applicable to AMA's acquired from Authorized Dealers in their initial term. Any cash not received from the subscriber at the time of product sale and installation is recognized as a contract asset at inception of the AMA and is subsequently amortized over the subscriber contract term as a reduction of the amounts billed for professional alarm monitoring, interactive and home automation services. If a subscriber cancels the AMA within the negotiated term, any existing contract asset is determined to be impaired and is immediately expensed in full to Selling, general and administrative expense on the condensed consolidated statement of operations.

Maintenance services are billed and recognized as revenue when the services are completed in the home and agreed to by the subscriber under the subscriber AMA. Contract monitoring fees are recognized as alarm monitoring revenue as the monitoring service is provided. Other fees are recognized as other revenue when billed to the subscriber which coincides with the timing of when the services are provided.

Disaggregation of Revenue

Revenue is disaggregated by source of revenue as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Alarm monitoring revenue	$ 125,004	134,317	$ 374,689	407,660
Product and installation revenue	11,360	2,899	28,984	9,328
Other revenue	792	995	2,249	2,921
Total Net revenue	$ 137,156	138,211	$ 405,922	419,909

Contract Balances

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

	September 30, 2018	At adoption
Trade receivables, net	$ 13,162	12,645
Contract assets, net - current portion (a)	13,836	14,197
Contract assets, net - long-term portion (b)	16,621	10,377
Deferred revenue	12,069	12,892

(a) Amount is included in Prepaid and other current assets in the unaudited condensed consolidated balance sheets.

(b) Amount is included in Other assets in the unaudited condensed consolidated balance sheets.

Changes in Accounting Policies

The Company adopted Topic 606, effective January 1, 2018, using the modified retrospective transition method. Under the modified retrospective transition method, the Company evaluated active AMAs on the adoption date as if each AMA had been accounted for under Topic 606 from its inception. Some revenue related to AMAs originated through our direct-to-consumer channel or through extensions that would have been recognized in future periods under Topic 605 were recast under Topic 606 as if revenue had been accelerated and recognized in prior periods, as it was allocated to product and installation performance obligations. A contract asset was recorded as of the adoption date for any cash that has yet to be collected on the accelerated revenue. As this transition method requires that the Company not adjust historical reported revenue amounts, the accelerated revenue that would have been recognized under this method prior to the adoption date was recorded as an adjustment to opening retained earnings and, thus, will not be recognized as revenue in future periods as previously required under Topic 605. Therefore, the comparative information has not been adjusted and continues to be reported under Topic 605.

Under Topic 605, revenue provided under the AMA was recognized as the services were provided, based on the recurring monthly revenue amount billed for each month under contract. Product, installation and service revenue generally was recognized as billed and incurred. Under Topic 606, the Company concluded that certain product and installation services sold or provided to our customers at AMA inception are capable of being distinct and are distinct within the context of the contract. As such, when the Company initiates an AMA with a customer directly and provides equipment and installation services, each component is considered a performance obligation that must have revenue allocated accordingly. The allocation is based on the SSP of each performance obligation as a percentage of the total SSP of all performance obligations multiplied by the total consideration, or cash, expected to be received over the contract term. These AMAs may relate to new customers originated by the Company through its direct-to-consumer channel or existing customers who agree to new contract terms through customer service offerings. For AMAs with multiple performance obligations, management notes that a certain amount of the revenue billed on a recurring monthly basis is recognized earlier under Topic 606 than it was recognized under Topic 605, as a portion of that revenue is allocated to the equipment sale and installation, which is satisfied upon delivery of the product and performance of the installation services at AMA inception.

Revenue on AMAs originated through the Authorized Dealer program are not impacted by Topic 606 in their initial term, as the customer contracts for the equipment sale and installation separately with the Authorized Dealer prior to the Company purchasing the AMA from the Authorized Dealer. Revenue on these customers is recognized as the service is provided based on the recurring monthly revenue amount billed for each month of the AMA. Maintenance service revenue for repair of existing alarm equipment at the subscribers' premises will continue to be billed and recognized based on their SSP at the time the Company performs the services.

Topic 606 also requires the deferral of incremental costs of obtaining a contract with a customer. Certain direct and incremental costs were capitalized under Topic 605, including on new AMAs obtained in connection with a subscriber move (“Moves Costs”). Under Topic 606, Moves Costs are expensed as incurred to accompany the allocated revenue recognized upon product and installation performance obligations recognized at the AMA inception. There are no other significant changes in contract costs that are capitalized or the period over which they are expensed.

Impacts on Financial Statements

The significant effects of adopting Topic 606 are changes to Prepaid and other current assets, Subscriber accounts, net, Other assets, net, Net revenue, Cost of services, Selling, general and administrative and Amortization of subscriber accounts for the period beginning January 1, 2018 for AMAs initiated by the Company with the customer directly with multiple performance obligations, as a portion of that revenue is allocated to the equipment sale and installation, which is satisfied upon delivery of the product and performance of the installation services at AMA inception.

The following tables summarize the impacts of adopting Topic 606 on the Company's condensed consolidated financial statements as of and for the three and nine months ended September 30, 2018 (in thousands):

i. Condensed consolidated balance sheets

	Impact of changes in accounting policies		
	As reported September 30, 2018	Adjustments	Balances without adoption of Topic 606
Assets			
Current assets:			
Cash and cash equivalents	$ 26,835	—	26,835
Restricted cash	133	—	133
Trade receivables, net of allowance for doubtful accounts	13,162	—	13,162
Prepaid and other current assets	26,794	(13,836)	12,958
Total current assets	66,924	(13,836)	53,088
Property and equipment, net of accumulated depreciation	36,553	—	36,553
Subscriber accounts and deferred contract acquisition costs, net of accumulated amortization	1,215,831	47,095	1,262,926
Dealer network and other intangible assets, net of accumulated amortization	—	—	—
Goodwill	349,149	—	349,149
Other assets, net	36,812	(16,621)	20,191
Total assets	$ 1,705,269	16,638	1,721,907
Liabilities and Stockholder's (Deficit) Equity			
Current liabilities:			
Accounts payable	$ 11,636	—	11,636
Accrued payroll and related liabilities	6,135	—	6,135
Other accrued liabilities	40,289	—	40,289
Deferred revenue	12,069	1,133	13,202
Holdback liability	10,766	—	10,766
Current portion of long-term debt	11,000	—	11,000
Total current liabilities	91,895	1,133	93,028
Non-current liabilities:			
Long-term debt	1,795,119	—	1,795,119
Long-term holdback liability	2,031	—	2,031
Derivative financial instruments	1,139	—	1,139
Deferred income tax liability, net	15,291	—	15,291
Other liabilities	2,701	—	2,701
Total liabilities	1,908,176	1,133	1,909,309
Commitments and contingencies			
Stockholder's (deficit) equity:			
Common stock	—	—	—
Additional paid-in capital	440,050	—	440,050
Accumulated deficit	(659,383)	15,505	(643,878)
Accumulated other comprehensive income, net	16,426	—	16,426
Total stockholder's (deficit) equity	(202,907)	15,505	(187,402)
Total liabilities and stockholder's (deficit) equity	$ 1,705,269	16,638	1,721,907

ii. Condensed consolidated statements of operations and comprehensive income (loss)

	Impact of changes in accounting policies		
	As reported three months ended September 30, 2018	**Adjustments**	**Balances without adoption of Topic 606**
Net revenue	$ 137,156	(4,216)	132,940
Operating expenses:			
Cost of services	35,059	(1,774)	33,285
Selling, general and administrative, including stock-based and long-term incentive compensation	34,266	(103)	34,163
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	52,671	1,870	54,541
Depreciation	2,880	—	2,880
Loss on goodwill impairment	—	—	—
	124,876	(7)	124,869
Operating loss	12,280	(4,209)	8,071
Other expense:			
Interest expense	39,077	—	39,077
Refinancing expense	5,697	—	5,697
	44,774	—	44,774
Loss before income taxes	(32,494)	(4,209)	(36,703)
Income tax expense	1,346	—	1,346
Net loss	(33,840)	(4,209)	(38,049)
Other comprehensive income (loss):			
Unrealized gain on derivative contracts, net	3,269	—	3,269
Total other comprehensive income, net of tax	3,269	—	3,269
Comprehensive loss	$ (30,571)	(4,209)	(34,780)

	Impact of changes in accounting policies		
	As reported nine months ended September 30, 2018	Adjustments	Balances without adoption of Topic 606
Net revenue	$ 405,922	(6,986)	398,936
Operating expenses:			
Cost of services	100,807	(5,292)	95,515
Selling, general and administrative, including stock-based and long-term incentive compensation	98,935	(112)	98,823
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	160,973	5,633	166,606
Depreciation	8,360	—	8,360
Loss on goodwill impairment	214,400	—	214,400
	583,475	229	583,704
Operating loss	(177,553)	(7,215)	(184,768)
Other expense:			
Interest expense	114,550	—	114,550
Refinancing expense	5,697	—	5,697
	120,247	—	120,247
Loss before income taxes	(297,800)	(7,215)	(305,015)
Income tax expense	4,039	—	4,039
Net loss	(301,839)	(7,215)	(309,054)
Other comprehensive income (loss):			
Unrealized gain on derivative contracts, net	23,196	—	23,196
Total other comprehensive income, net of tax	23,196	—	23,196
Comprehensive loss	$ (278,643)	(7,215)	(285,858)

iii. Condensed consolidated statements of cash flows

	Impact of changes in accounting policies		
	As reported nine months ended September 30, 2018	Adjustments	Balances without adoption of Topic 606
Cash flows from operating activities:			
Net loss	$ (301,839)	(7,215)	(309,054)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	160,973	5,633	166,606
Depreciation	8,360	—	8,360
Stock-based and long-term incentive compensation	751	—	751
Deferred income tax expense	1,987	—	1,987
Refinancing expense	5,697	—	5,697
Amortization of debt discount and deferred debt costs	5,472	—	5,472
Bad debt expense	8,511	—	8,511
Goodwill impairment	214,400	—	214,400
Other non-cash activity, net	2,040	—	2,040
Changes in assets and liabilities:			
Trade receivables	(9,028)	—	(9,028)
Prepaid expenses and other assets	(9,769)	7,016	(2,753)
Subscriber accounts - deferred contract acquisition costs	(4,529)	89	(4,440)
Payables and other liabilities	(8,568)	(825)	(9,393)
Net cash provided by operating activities	74,458	4,698	79,156
Cash flows from investing activities:			
Capital expenditures	(11,513)	—	(11,513)
Cost of subscriber accounts acquired	(111,531)	(4,698)	(116,229)
Net cash used in investing activities	(123,044)	(4,698)	(127,742)
Cash flows from financing activities:			
Proceeds from long-term debt	218,950	—	218,950
Payments on long-term debt	(136,600)	—	(136,600)
Payments of financing costs	(5,015)	—	(5,015)
Value of shares withheld for share-based compensation	(83)	—	(83)
Dividend to Ascent Capital	(5,000)	—	(5,000)
Net cash provided by financing activities	72,252	—	72,252
Net increase in cash, cash equivalents and restricted cash	23,666	—	23,666
Cash, cash equivalents and restricted cash at beginning of period	3,302	—	3,302
Cash, cash equivalents and restricted cash at end of period	$ 26,968	—	26,968

(5) Goodwill

The following table provides the activity and balances of goodwill by reporting unit (amounts in thousands):

	MONI	LiveWatch	Brinks Home Security	Total
Balance at 12/31/2017	$ 527,502	$ 36,047	$ —	$ 563,549
Goodwill impairment	(214,400)	—	—	(214,400)
Reporting unit reallocation	(313,102)	(36,047)	349,149	—
Balance at 9/30/2018	$ —	$ —	$ 349,149	$ 349,149

The Company accounts for its goodwill pursuant to the provisions of FASB ASC Topic 350, *Intangibles - Goodwill and Other* ("FASB ASC Topic 350"). In accordance with FASB ASC Topic 350, goodwill is not amortized, but rather tested for impairment annually, or earlier if an event occurs, or circumstances change, that indicate the fair value of a reporting unit may be below its carrying amount.

As of May 31, 2018, the Company determined that a triggering event had occurred due to a sustained decrease in Ascent Capital's share price. In response to the triggering event, the Company performed a quantitative impairment test for both the MONI and LiveWatch reporting units. Fair value was determined using a combination of the income-based approach (using a discount rate of 8.50%) and market-based approach for the MONI reporting unit and an income-based approach (using a discount rate of8.50%) for the LiveWatch reporting unit. Based on the analysis, the fair value of the LiveWatch reporting unit substantially exceeded its carrying value, while the carrying amount for the MONI reporting unit exceeded its estimated fair value, which indicated an impairment at the MONI reporting unit.

The Company early adopted ASU 2017-04, which eliminated Step 2 from the goodwill impairment test, and as such, an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. Applying this methodology, we recorded an impairment charge of $214,400,000 for the MONI reporting unit during the three months ended June 30, 2018. Factors leading to the impairment are primarily the experience of overall lower account acquisition in recent periods. Using this information, we adjusted the growth outlook for this reporting unit, which resulted in reductions in future cash flows and a lower fair value calculation under the income-based approach. Additionally, decreases in observable market share prices for comparable companies in the quarter reduced the fair value calculated under the market-based approach.

In early June 2018, the reportable segments known as MONI and LiveWatch were combined and presented as Brinks Home Security. Refer to Note 1, Basis of Presentation, for further discussion on the change in reportable segments. As a result of the change in reportable segments, goodwill assigned to these former reporting units of $313,102,000 and $36,047,000, for MONI and LiveWatch, respectively, have been reallocated and combined as of June 30, 2018 under the Brinks Home Security reporting unit.

(6) Other Accrued Liabilities

Other accrued liabilities consisted of the following (amounts in thousands):

	September 30, 2018	December 31, 2017
Interest payable	$ 27,904	$ 14,835
Income taxes payable	2,289	2,839
Legal settlement reserve (a)	—	23,000
Other	10,096	9,352
Total Other accrued liabilities	$ 40,289	$ 50,026

(a) See note 11, Commitments, Contingencies and Other Liabilities, for further information.

(7) Long-Term Debt

Long-term debt consisted of the following (amounts in thousands):

	September 30, 2018	December 31, 2017
9.125% Senior Notes due April 1, 2020 with an effective interest rate of 9.5%	$ 581,588	$ 580,026
Ascent Intercompany Loan due October 1, 2020 with an effective rate of 12.5%	12,000	12,000
Term loan, matures September 30, 2022, LIBOR plus 5.50%, subject to a LIBOR floor of 1.00%, with an effective rate of 8.2%	1,054,933	1,059,598
$295 million revolving credit facility, matures September 30, 2021, LIBOR plus 4.00%, subject to a LIBOR floor of 1.00%, with an effective rate of 3.5%	157,598	66,673
	1,806,119	1,718,297
Less current portion of long-term debt	(11,000)	(11,000)
Long-term debt	$ 1,795,119	$ 1,707,297

Senior Notes

The senior notes total $585,000,000 in principal, mature on April 1, 2020 and bear interest at 9.125% per annum. Interest payments are due semi-annually on April 1 and October 1 of each year. Ascent Capital has not guaranteed any of the Company's obligations under the Senior Notes. As of September 30, 2018, the Senior Notes had deferred financing costs, net of accumulated amortization of $3,412,000.

The Senior Notes are guaranteed by all of the Company's existing domestic subsidiaries. See note 12, Consolidating Guarantor Financial Information for further information.

Ascent Intercompany Loan

On February 29, 2016, the Company retired the existing intercompany loan with an outstanding principal amount of $100,000,000 and executed and delivered a Promissory Note to Ascent Capital in a principal amount of $12,000,000 (the "Ascent Intercompany Loan"), with the $88,000,000 remaining principal being treated as a capital contribution. The entire principal amount under the Ascent Intercompany Loan is due on October 1, 2020. The Company may prepay any portion of the balance of the Ascent Intercompany Loan at any time from time to time without fee, premium or penalty (subject to certain financial covenants associated with the Company's other indebtedness). Any unpaid balance of the Ascent Intercompany Loan bears interest at a rate equal to 12.5% per annum, payable semi-annually in cash in arrears on January 12 and July 12 of each year. Borrowings under the Ascent Intercompany Loan constitute unsecured obligations of the Company and are not guaranteed by any of the Company's subsidiaries.

Credit Facility

On September 30, 2016, the Company entered into an amendment ("Amendment No. 6") with the lenders of its existing senior secured credit agreement dated March 23, 2012, and as amended and restated on April 9, 2015, February 17, 2015, August 16, 2013, March 25, 2013, and November 7, 2012 (the "Existing Credit Agreement"). Amendment No. 6 provided for, among other things, the issuance of a $1,100,000,000 senior secured term loan at a 1.5% discount and a new $295,000,000 super priority revolver (the Existing Credit Agreement together with Amendment No. 6, the "Credit Facility").

On September 27, 2018, the Company borrowed an incremental $26,691,000 on its Credit Facility revolver to fund its October 1, 2018 interest payment due under the Senior Notes.

As of September 30, 2018, the Credit Facility term loan has a principal amount of $1,078,000,000, maturing on September 30, 2022. The term loan requires quarterly interest payments and quarterly principal payments of $2,750,000. The term loan bears interest at LIBOR plus 5.5%, subject to a LIBOR floor of 1.0%. The Credit Facility revolver has a principal amount outstanding of $159,100,000 as of September 30, 2018 and matures on September 30, 2021. The Credit Facility revolver bears interest at LIBOR plus 4.0%, subject to a LIBOR floor of 1.0%. There is a commitment fee of 0.5% on unused portions of the Credit Facility revolver. As of September 30, 2018, $135,900,000 is available for borrowing under the Credit Facility revolver subject to certain financial covenants.

The maturity date for each of the term loan and the revolving credit facility under the Credit Facility is subject to a springing maturity181 days prior to the scheduled maturity date of the Senior Notes, or October 3, 2019 (the "Springing Maturity"), if we are unable to refinance the Senior Notes by that date. In addition, if we are unable to refinance the Senior Notes, or demonstrate the ability to meet our financial covenants for a period of twelve months after the issuance date, prior to the filing with the SEC of our Annual Report on Form 10-K for the year ended December 31, 2018, we may be subject to a going concern qualification in connection with our external audit report, which would be an event of default under the Credit Facility. At any time after the occurrence of an event of default under the Credit Facility, the lenders may, among other options, declare any amounts outstanding under the Credit Facility immediately due and payable and terminate any commitment to make further loans under the Credit Facility. Also, failure to comply with restrictions contained in the Senior Notes could lead to an event of default under the Credit Facility.

The Credit Facility is secured by a pledge of all of the outstanding stock of the Company and all of its existing subsidiaries and is guaranteed by all of the Company's existing domestic subsidiaries. Ascent Capital has not guaranteed any of the Company's obligations under the Credit Facility.

As of September 30, 2018, the Company has deferred financing costs and unamortized discounts, net of accumulated amortization, of$24,569,000 related to the Credit Facility.

In order to reduce the financial risk related to changes in interest rates associated with the floating rate term loan under the Credit Facility term loan, the Company has entered into interest rate swap agreements with terms similar to the Credit Facility term loan (all outstanding interest rate swap agreements are collectively referred to as the "Swaps"). The Swaps have been designated as effective hedges of the Company's variable rate debt and qualify for hedge accounting. As a result of these interest rate swaps, the Company's effective weighted average interest rate (excluding the impacts of non-cash amortization of deferred debt costs and discounts) on the borrowings under the Credit Facility term loan was 7.99% as of September 30, 2018. See note 8, Derivatives, for further disclosures related to these derivative instruments.

The terms of the Senior Notes and the Credit Facility provide for certain financial and nonfinancial covenants. As of September 30, 2018, the Company was in compliance with all required covenants under these financing arrangements.

As of September 30, 2018, principal payments scheduled to be made on the Company's debt obligations, assuming no Springing Maturity of the Credit Facility, are as follows (amounts in thousands):

Remainder of 2018	$	2,750
2019		11,000
2020		608,000
2021		170,100
2022		1,042,250
2023		—
Thereafter		—
Total principal payments		1,834,100
Less:		
Unamortized deferred debt costs and discounts		27,981
Total debt on condensed consolidated balance sheet	$	1,806,119

(8) Derivatives

The Company utilizes Swaps to reduce the interest rate risk inherent in the Company's variable rate Credit Facility term loan. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatility. The Company incorporates credit valuation adjustments to appropriately reflect the respective counterparty's nonperformance risk in the fair value measurements. See note 9, Fair Value Measurements, for additional information about the credit valuation adjustments.

All of the Swaps are designated and qualify as cash flow hedging instruments, with the effective portion of the Swaps' change in fair value recorded in Accumulated other comprehensive income (loss). Changes in the fair value of the Swaps recognized in

Accumulated other comprehensive income (loss) are reclassified to Interest expense when the hedged interest payments on the underlying debt are recognized. Amounts in Accumulated other comprehensive income (loss) expected to be recognized as a reduction of Interest expense in the coming 12 months total approximately $1,810,000.

As of September 30, 2018, the Swaps' outstanding notional balances, effective dates, maturity dates and interest rates paid and received are noted below:

Notional	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
$ 189,998,331	March 23, 2018	April 9, 2022	3.110%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor (a)
248,125,000	March 23, 2018	April 9, 2022	3.110%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor (a)
49,625,000	March 23, 2018	April 9, 2022	2.504%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor
374,172,500	March 23, 2018	September 30, 2022	1.833%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor

(a) On September 30, 2016, the Company negotiated amendments to the terms of these interest rate swap agreements (the "Existing Swap Agreements," as amended, the "Amended Swaps"). The Amended Swaps are held with the same counterparties as the Existing Swap Agreements. Upon entering into the Amended Swaps, the Company simultaneously dedesignated the Existing Swap Agreements and redesignated the Amended Swaps as cash flow hedges for the underlying change in the swap terms. The amounts previously recognized in Accumulated other comprehensive income (loss) relating to the dedesignation are recognized in Interest expense over the remaining life of the Amended Swaps.

The impact of the derivatives designated as cash flow hedges on the condensed consolidated financial statements is depicted below (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Effective portion of gain (loss) recognized in Accumulated other comprehensive income (loss)	$ 3,165	(914)	$ 21,929	(8,890)
Effective portion of loss reclassified from Accumulated other comprehensive income (loss) into Net loss (a)	$ (104)	(1,141)	$ (1,267)	(4,389)
Ineffective portion of amount of loss recognized into Net loss (a)	$ —	(65)	$ —	(157)

(a) Amounts are included in Interest expense in the unaudited condensed consolidated statements of operations and comprehensive income (loss). Upon the adoption of ASU 2017-12 on January 1, 2018, ineffectiveness is no longer measured or recognized.

(9) Fair Value Measurements

According to the FASB ASC Topic 820, *Fair Value Measurement*, fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and requires that assets and liabilities carried at fair value are classified and disclosed in the following three categories:

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar instruments in active or inactive markets and valuations derived from models where all significant inputs are observable in active markets.
- Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are unobservable in any market.

The following summarizes the fair value level of assets and liabilities that are measured on a recurring basis at September 30, 2018 and December 31, 2017 (amounts in thousands):

		Level 1	Level 2	Level 3	Total
September 30, 2018					
Interest rate swap agreements - assets (a)	$	—	17,564	—	17,564
Interest rate swap agreements - liabilities (b)		—	(1,139)	—	(1,139)
Total	$	—	16,425	—	16,425
December 31, 2017					
Interest rate swap agreements - assets (a)	$	—	7,058	—	7,058
Interest rate swap agreements - liabilities (b)		—	(13,817)	—	(13,817)
Total	$	—	(6,759)	—	(6,759)

(a) Included in non-current Other assets on the condensed consolidated balance sheets.
(b) Included in non-current Derivative financial instruments on the condensed consolidated balance sheets.

The Company has determined that the significant inputs used to value the Swaps fall within Level 2 of the fair value hierarchy. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy.

Carrying values and fair values of financial instruments that are not carried at fair value are as follows (amounts in thousands):

		September 30, 2018	December 31, 2017
Long term debt, including current portion:			
Carrying value	$	1,806,119	1,718,297
Fair value (a)		1,652,125	1,645,616

(a) The fair value is based on market quotations from third party financial institutions and is classified as Level 2 in the hierarchy.

The Company's other financial instruments, including cash and cash equivalents, accounts receivable and accounts payable are carried at cost, which approximates their fair value because of their short-term maturity.

(10) Accumulated Other Comprehensive Income (Loss)

The following table provides a summary of the changes in Accumulated other comprehensive income (loss) for the period presented (amounts in thousands):

	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2017	$ (7,375)
Impact of adoption of ASU 2017-12	605
Adjusted balance at January 1, 2018	$ (6,770)
Unrealized gain on derivatives recognized through Accumulated other comprehensive income (loss), net of income tax of $0	13,668
Reclassifications of unrealized loss on derivatives into Net loss, net of income tax of $0 (a)	738
Net period Other comprehensive income	14,406
Balance at March 31, 2018	$ 7,636
Unrealized gain on derivatives recognized through Accumulated other comprehensive income (loss), net of income tax of $0	5,096
Reclassifications of unrealized loss on derivatives into Net loss, net of income tax of $0 (a)	425
Net period Other comprehensive income	5,521
Balance at June 30, 2018	$ 13,157
Unrealized gain on derivatives recognized through Accumulated other comprehensive income (loss), net of income tax of $0	3,165
Reclassifications of unrealized loss on derivatives into Net loss, net of income tax of $0 (a)	104
Net period Other comprehensive income	3,269
Balance at September 30, 2018	$ 16,426

(a) Amounts reclassified into net loss are included in Interest expense on the condensed consolidated statement of operations. See note 8, Derivatives, for further information.

(11) Commitments, Contingencies and Other Liabilities

The Company was named as a defendant in multiple putative class actions consolidated in U.S. District Court (Northern District of West Virginia) on behalf of purported class(es) of persons who claim to have received telemarketing calls in violation of various state and federal laws. The actions were brought by plaintiffs seeking monetary damages on behalf of all plaintiffs who received telemarketing calls made by a Brinks Home Security Authorized Dealer, or any Authorized Dealer’s lead generator or sub-dealer. In the second quarter of 2017, the Company and the plaintiffs agreed to settle this litigation for $28,000,000 ("the Settlement Amount"). In the third quarter of 2017, the Company paid $5,000,000 of the Settlement Amount pursuant to the settlement agreement with the plaintiffs. In the third quarter of 2018, the Company paid the remaining $23,000,000 of the Settlement Amount. The Company is actively seeking to recover the Settlement Amount under its insurance policies held with multiple carriers. On November 1, 2018, we settled our claim against one such carrier in which the carrier agreed to pay us $9,750,000 in the fourth quarter of 2018. This amount will be recognized in the consolidated statement of operations at such time. We continue to seek to recover additional funds under our insurance policies from the remaining carriers.

In addition to the above, the Company is also involved in litigation and similar claims incidental to the conduct of its business, including from time to time, contractual disputes, claims related to alleged security system failures and claims related to alleged violations of the U.S. Telephone Consumer Protection Act. Matters that are probable of unfavorable outcome to the Company and which can be reasonably estimated are accrued. Such accruals are based on information known about the matters, management's estimate of the outcomes of such matters and experience in contesting, litigating and settling similar matters. In management's opinion, none of the pending actions are likely to have a material adverse impact on the Company's financial position or results of operations. The Company accrues and expenses legal fees related to loss contingency matters as incurred.

Other Legal Proceedings

On August 27, 2018, holders purporting to own approximately68% of Ascent Capital's 4.00% Convertible Senior Notes due 2020 (the "Convertible Notes") filed a complaint in the Court of Chancery in the State of Delaware against Ascent Capital and each of its directors and executive officers.

On September 5, 2018, holders purporting to own approximately69% of the Convertible Notes filed an amended complaint in the Court of Chancery of the State of Delaware against Ascent Capital and each of its directors and executive officers, and a motion for a preliminary injunction seeking to prevent Ascent Capital from consummating the exchange offer related to the Senior Notes of Brinks Home Security announced by Ascent Capital and Brinks Home Security on August 30, 2018.

On October 1, 2018, holders purporting to own approximately78% of the Convertible Notes filed a second amended complaint in the Court of Chancery of the State of Delaware against Ascent Capital and each of its directors and executive officers, and an amended motion for a preliminary injunction seeking to prevent Ascent Capital from consummating the transactions announced by Ascent Capital and Brinks Home Security on September 25, 2018.

On October 22, 2018, the Court of Chancery of the State of Delaware entered a Third Scheduling Order Governing Plaintiffs' Motion for Preliminary Injunction ("the Scheduling Order"). The Scheduling Order provides, among other things, that the preliminary injunction hearing will be held on December 5, 2018.

On November 2, 2018, holders purporting to own approximately53% of the Convertible Notes (the "Plaintiffs") filed a third amended complaint (the "Third Amended Complaint") in the Court of Chancery of the State of Delaware against Ascent Capital and each of its directors and executive officers. The Third Amended Complaint alleges that Ascent Capital's participation in the transactions announced by Ascent Capital and Brinks Home Security on October 30, 2018 (the "October 30th Transactions") would be detrimental to Ascent Capital and, if consummated, would result in Ascent Capital becoming insolvent. The Third Amended Complaint further alleges that the October 30th Transactions would (i) result in a breach of Ascent Capital's directors' fiduciary duties to Ascent Capital and (ii) constitute a constructive or intentional fraudulent transfer by using assets of Ascent Capital necessary for the repayment of the Notes for other purposes. The Third Amended Complaint seeks (i) injunctive relief to prevent Ascent Capital from engaging in the October 30th Transactions, which would allegedly dissipate Ascent Capital's assets, and (ii) a declaratory judgment that approval of the October 30th Transactions constitutes a breach of fiduciary duty by Ascent Capital's directors and that consummation of the October 30th Transactions would constitute a fraudulent transfer by Ascent Capital. Also on November 2, 2018, the Plaintiffs filed an amended motion for a preliminary injunction seeking to prevent Ascent Capital from consummating the October 30th Transactions.

The Third Amended Complaint could be amended, or similar claims could be brought, challenging the October 30th Transactions, and we cannot assure you that such claims will be unsuccessful, will not require us to pay damages (including costs and expenses of the action) or will not have a material effect on any such October 30th Transactions. Ascent Capital believes that the claims in the Third Amended Complaint are meritless, and Ascent Capital intends to vigorously defend against this action.

(12) Consolidating Guarantor Financial Information

The Senior Notes were issued by Brinks Home Security (the "Parent Issuer") and are fully and unconditionally guaranteed, on a joint and several basis, by all of the Company's existing domestic subsidiaries ("Subsidiary Guarantors"). Ascent Capital has not guaranteed any of the Company's obligations under the Senior Notes. The unaudited condensed consolidating financial information for the Parent Issuer, the Subsidiary Guarantors and the non-guarantors are as follows:

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
(unaudited)

	As of September 30, 2018				
	Parent Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Assets					
Current assets:					
Cash and cash equivalents	$ 26,614	221	—	—	26,835
Restricted cash	133	—	—	—	133
Trade receivables, net	12,346	816	—	—	13,162
Prepaid and other current assets	112,574	3,728	—	(89,508)	26,794
Total current assets	151,667	4,765	—	(89,508)	66,924
Property and equipment, net	34,656	1,897	—	—	36,553
Subscriber accounts and deferred contract acquisition costs, net	1,180,162	35,669	—	—	1,215,831
Dealer network and other intangible assets, net	—	—	—	—	—
Goodwill	313,102	36,047	—	—	349,149
Other assets, net	36,778	34	—	—	36,812
Total assets	$ 1,716,365	78,412	—	(89,508)	1,705,269
Liabilities and Stockholder's (Deficit) Equity					
Current liabilities:					
Accounts payable	$ 9,874	1,762	—	—	11,636
Accrued payroll and related liabilities	5,180	955	—	—	6,135
Other accrued liabilities	38,408	91,389	—	(89,508)	40,289
Deferred revenue	10,330	1,739	—	—	12,069
Holdback liability	10,580	186	—	—	10,766
Current portion of long-term debt	11,000	—	—	—	11,000
Total current liabilities	85,372	96,031	—	(89,508)	91,895
Non-current liabilities:					
Long-term debt	1,795,119	—	—	—	1,795,119
Long-term holdback liability	2,031	—	—	—	2,031
Derivative financial instruments	1,139	—	—	—	1,139
Deferred income tax liability, net	13,254	2,037	—	—	15,291
Other liabilities	22,357	—	—	(19,656)	2,701
Total liabilities	1,919,272	98,068	—	(109,164)	1,908,176
Total stockholder's (deficit) equity	(202,907)	(19,656)	—	19,656	(202,907)
Total liabilities and stockholder's (deficit) equity	$ 1,716,365	78,412	—	(89,508)	1,705,269

Table of Contents

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidating Balance Sheet
(unaudited)

	As of December 31, 2017				
	Parent Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Assets					
Current assets:					
Cash and cash equivalents	$ 2,705	597	—	—	3,302
Trade receivables, net	12,082	563	—	—	12,645
Prepaid and other current assets	74,613	2,396	—	(66,341)	10,668
Total current assets	89,400	3,556	—	(66,341)	26,615
Investment in subsidiaries	4,554	—	—	(4,554)	—
Property and equipment, net	30,727	2,062	—	—	32,789
Subscriber accounts and deferred contract acquisition costs, net	1,265,519	36,509	—	—	1,302,028
Dealer network and other intangible assets, net	6,063	931	—	—	6,994
Goodwill	527,191	36,358	—	—	563,549
Other assets, net	9,311	29	—	—	9,340
Total assets	$ 1,932,765	79,445	—	(70,895)	1,941,315
Liabilities and Stockholder's Equity					
Current liabilities:					
Accounts payable	$ 9,705	1,368	—	—	11,073
Accrued payroll and related liabilities	2,648	810	—	—	3,458
Other accrued liabilities	47,800	68,567	—	(66,341)	50,026
Deferred revenue	12,332	1,539	—	—	13,871
Holdback liability	9,035	274	—	—	9,309
Current portion of long-term debt	11,000	—	—	—	11,000
Total current liabilities	92,520	72,558	—	(66,341)	98,737
Non-current liabilities:					
Long-term debt	1,707,297	—	—	—	1,707,297
Long-term holdback liability	2,658	—	—	—	2,658
Derivative financial instruments	13,491	—	—	—	13,491
Deferred income tax liability, net	11,684	1,620	—	—	13,304
Other liabilities	2,379	713	—	—	3,092
Total liabilities	1,830,029	74,891	—	(66,341)	1,838,579
Total stockholder's equity	102,736	4,554	—	(4,554)	102,736
Total liabilities and stockholder's equity	$ 1,932,765	79,445	—	(70,895)	1,941,315

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
(unaudited)

	Three Months Ended September 30, 2018				
	Parent Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
			(amounts in thousands)		
Net revenue	$ 128,320	8,836	—	—	137,156
Operating expenses:					
Cost of services	28,801	6,258	—	—	35,059
Selling, general, and administrative, including stock-based compensation	23,095	11,171	—	—	34,266
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	51,172	1,499	—	—	52,671
Depreciation	2,640	240	—	—	2,880
Loss on goodwill impairment	—	—	—	—	—
	105,708	19,168	—	—	124,876
Operating income (loss)	22,612	(10,332)	—	—	12,280
Other expense:					
Equity in loss of subsidiaries	10,515	—	—	(10,515)	—
Interest expense	39,077	—	—	—	39,077
Refinancing expense	5,697	—	—	—	5,697
	55,289	—	—	(10,515)	44,774
Loss before income taxes	(32,677)	(10,332)	—	10,515	(32,494)
Income tax expense	1,163	183	—	—	1,346
Net loss	(33,840)	(10,515)	—	10,515	(33,840)
Other comprehensive income (loss):					
Unrealized gain on derivative contracts	3,269	—	—	—	3,269
Total other comprehensive income	3,269	—	—	—	3,269
Comprehensive loss	$ (30,571)	(10,515)	—	10,515	(30,571)

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
(unaudited)

	Three Months Ended September 30, 2017				
	Parent Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
			(amounts in thousands)		
Net revenue	$ 129,501	8,710	—	—	138,211
Operating expenses:					
Cost of services	26,479	3,734	—	—	30,213
Selling, general, and administrative, including stock-based compensation	25,145	8,329	—	—	33,474
Radio conversion costs	68	6	—	—	74
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	57,770	1,614	—	—	59,384
Depreciation	1,980	190	—	—	2,170
	111,442	13,873	—	—	125,315
Operating income (loss)	18,059	(5,163)	—	—	12,896
Other expense:					
Equity in loss of subsidiaries	5,423	—	—	(5,423)	—
Interest expense	36,665	—	—	—	36,665
	42,088	—	—	(5,423)	36,665
Loss before income taxes	(24,029)	(5,163)	—	5,423	(23,769)
Income tax expense	1,507	260	—	—	1,767
Net loss	(25,536)	(5,423)	—	5,423	(25,536)
Other comprehensive income (loss):					
Unrealized gain on derivative contracts	227	—	—	—	227
Total other comprehensive income	227	—	—	—	227
Comprehensive loss	$ (25,309)	(5,423)	—	5,423	(25,309)

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
(unaudited)

	Nine Months Ended September 30, 2018				
	Parent Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
			(amounts in thousands)		
Net revenue	$ 376,741	29,181	—	—	405,922
Operating expenses:					
Cost of services	84,965	15,842	—	—	100,807
Selling, general, and administrative, including stock-based compensation	68,514	30,421	—	—	98,935
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	155,500	5,473	—	—	160,973
Depreciation	7,647	713	—	—	8,360
Loss on goodwill impairment	214,089	311	—	—	214,400
	530,715	52,760	—	—	583,475
Operating loss	(153,974)	(23,579)	—	—	(177,553)
Other expense:					
Equity in loss of subsidiaries	24,125	—	—	(24,125)	—
Interest expense	114,550	—	—	—	114,550
Refinancing expense	5,697	—	—	—	5,697
	144,372	—	—	(24,125)	120,247
Loss before income taxes	(298,346)	(23,579)	—	24,125	(297,800)
Income tax expense	3,493	546	—	—	4,039
Net loss	(301,839)	(24,125)	—	24,125	(301,839)
Other comprehensive income (loss):					
Unrealized gain on derivative contracts	23,196	—	—	—	23,196
Total other comprehensive income	23,196	—	—	—	23,196
Comprehensive loss	$ (278,643)	(24,125)	—	24,125	(278,643)

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)
(unaudited)

	Nine Months Ended September 30, 2017				
	Parent Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Net revenue	$ 394,842	25,067	—	—	419,909
Operating expenses:					
Cost of services	78,742	11,057	—	—	89,799
Selling, general, and administrative, including stock-based compensation	103,315	23,444	—	—	126,759
Radio conversion costs	327	56	—	—	383
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	174,046	4,850	—	—	178,896
Depreciation	5,916	499	—	—	6,415
	362,346	39,906	—	—	402,252
Operating income (loss)	32,496	(14,839)	—	—	17,657
Other expense:					
Equity in loss of subsidiaries	15,620	—	—	(15,620)	—
Interest expense	108,975	5	—	—	108,980
	124,595	5	—	(15,620)	108,980
Loss before income taxes	(92,099)	(14,844)	—	15,620	(91,323)
Income tax expense	4,554	776	—	—	5,330
Net loss	(96,653)	(15,620)	—	15,620	(96,653)
Other comprehensive loss:					
Unrealized loss on derivative contracts	(4,501)	—	—	—	(4,501)
Total other comprehensive loss	(4,501)	—	—	—	(4,501)
Comprehensive loss	$ (101,154)	(15,620)	—	15,620	(101,154)

MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES
Condensed Consolidating Statement of Cash Flows
(unaudited)

	Nine Months Ended September 30, 2018				
	Parent Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Net cash provided by operating activities	$ 73,070	1,388	—	—	74,458
Investing activities:					
Capital expenditures	(10,966)	(547)	—	—	(11,513)
Cost of subscriber accounts acquired	(110,314)	(1,217)	—	—	(111,531)
Net cash used in investing activities	(121,280)	(1,764)	—	—	(123,044)
Financing activities:					
Proceeds from long-term debt	218,950	—	—	—	218,950
Payments on long-term debt	(136,600)	—	—	—	(136,600)
Payments of financing costs	(5,015)	—	—	—	(5,015)
Value of shares withheld for share-based compensation	(83)	—	—	—	(83)
Dividend to Ascent Capital	(5,000)	—	—	—	(5,000)
Net cash provided by financing activities	72,252	—	—	—	72,252
Net increase (decrease) in cash, cash equivalents and restricted cash	24,042	(376)	—	—	23,666
Cash, cash equivalents and restricted cash at beginning of period	2,705	597	—	—	3,302
Cash, cash equivalents and restricted cash at end of period	$ 26,747	221	—	—	26,968

	Nine Months Ended September 30, 2017				
	Parent Issuer	Subsidiary Guarantors	Non-Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Net cash provided by operating activities	$ 125,134	2,093	—	—	127,227
Investing activities:					
Capital expenditures	(9,044)	(955)	—	—	(9,999)
Cost of subscriber accounts acquired	(116,918)	(2,163)	—	—	(119,081)
Net cash used in investing activities	(125,962)	(3,118)	—	—	(129,080)
Financing activities:					
Proceeds from long-term debt	159,850	—	—	—	159,850
Payments on long-term debt	(132,500)	—	—	—	(132,500)
Value of shares withheld for share-based compensation	(424)	—	—	—	(424)
Net cash provided by financing activities	26,926	—	—	—	26,926
Net increase (decrease) in cash, cash equivalents and restricted cash	26,098	(1,025)	—	—	25,073
Cash, cash equivalents and restricted cash at beginning of period	1,739	1,438	—	—	3,177
Cash, cash equivalents and restricted cash at end of period	$ 27,837	413	—	—	28,250

(12) Subsequent Events

On October 30, 2018, Ascent Capital and Brinks Home Security entered into the Amended and Restated Support Agreement. Under the agreement, Brinks Home Security will commence an Exchange Offer for its Senior Notes (the "Exchange Offer") and commence a consent solicitation for certain proposed amendments to its Credit Facility (the "Bank Amendments"), both described in the Amended and Restated Support Agreement. Ascent Capital will contribute $75 million in cash to Brinks Home Security under the terms of the Amended and Restated Support Agreement.

Pursuant to the Bank Amendments, the interest rate per annum payable in respect of the Credit Facility term loan shall be increased by 100 basis points and the interest rate per annum payable in respect of the Credit Facility revolver shall be increased by 75 basis points. In addition, Brinks Home Security would seek to amend certain restrictive covenants in the Credit Facility as described in the Amended and Restated Support Agreement, including the ability for Brinks Home Security to issue second lien notes. Additionally, the total availability under the Credit Facility revolver would be permanently decreased from $295 million to $250 million.

Pursuant to the Exchange Offer, Brinks Home Security would make an offer to eligible holders of its Senior Notes to exchange them for new Second Lien Notes due 2023 (the "Second Lien Notes") and solicit the consent of such holders to eliminate or waive all or substantially all restrictive covenants and events of default in the indenture governing the Senior Notes. The interest payable in respect of the new Second Lien Notes will be paid 5.5% per annum in cash and 6.5% per annum in kind.

If the Bank Amendments are not completed by a certain date, Brinks Home Security will commence an alternative exchange offer of new unsecured notes and cash in exchange for the existing Senior Notes.

Ascent Capital, Brinks Home Security, the Consenting Noteholders and the Credit Facility Lenders all have certain termination rights as defined in the Amended and Restated Support Agreement.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings, the availability of debt refinancing, the consummation of proposed debt refinancing transactions, financial prospects and anticipated sources and uses of capital. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- general business conditions and industry trends;
- macroeconomic conditions and their effect on the general economy and on the U.S. housing market, in particular single family homes, which represent our largest demographic;
- uncertainties in the development of our business strategies, including the rebranding to Brinks Home Security and market acceptance of new products and services;
- the competitive environment in which we operate, in particular, increasing competition in the alarm monitoring industry from larger existing competitors and new market entrants, including technology, telecommunications and cable companies;
- the development of new services or service innovations by competitors;
- our ability to acquire and integrate additional accounts, including competition for dealers with other alarm monitoring companies which could cause an increase in expected subscriber acquisition costs;
- integration of acquired assets and businesses;
- the regulatory environment in which we operate, including the multiplicity of jurisdictions, state and federal consumer protection laws and licensing requirements to which we and/or our dealers are subject and the risk of new regulations, such as the increasing adoption of "false alarm" ordinances;
- technological changes which could result in the obsolescence of currently utilized technology with the need for significant upgrade expenditures;
- the trend away from the use of public switched telephone network lines and the resultant increase in servicing costs associated with alternative methods of communication;
- the operating performance of our network, including the potential for service disruptions at both the main monitoring facility and back-up monitoring facility due to acts of nature or technology deficiencies, and the potential of security breaches related to network or customer information;
- the outcome of any pending, threatened, or future litigation, including potential liability for failure to respond adequately to alarm activations;
- the ability to continue to obtain insurance coverage sufficient to hedge our risk exposures, including as a result of acts of third parties and/or alleged regulatory violations;
- changes in the nature of strategic relationships with original equipment manufacturers, dealers and other of our business partners;
- the reliability and creditworthiness of our independent alarm systems dealers and subscribers;
- changes in our expected rate of subscriber attrition;
- the availability and terms of capital, including our ability to refinance our existing debt or obtain future financing to grow our business;
- our high degree of leverage and the restrictive covenants governing its indebtedness; and
- availability of qualified personnel.

For additional risk factors, please see Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K") and Part II, Item 1A, Risk Factors in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto included elsewhere herein and the 2017 Form 10-K.

Overview

Monitronics International, Inc. ("Brinks Home Security" or the "Company") provides residential customers and commercial client accounts with monitored home and business security systems, as well as interactive and home automation services, in the United States, Canada and Puerto Rico. Brinks Home Security customers are obtained through our direct-to-consumer sales channel or our Authorized Dealer network, which provides product and installation services, as well as support to customers. Our direct-to-consumer channel offers both Do-It-Yourself ("DIY") and professional installation security solutions.

The rollout of the Brinks Home Security brand in the second quarter of 2018 included the integration of our business model under a single brand. As part of the integration, we reorganized our business from two reportable segments, "MONI" and "LiveWatch," to one reportable segment, Brinks Home Security. Following the integration, the Company's chief operating decision maker reviews internal financial information on a consolidated basis. The change in reportable segments had no impact on our previously reported historical condensed consolidated financial statements.

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("Topic 606") using the modified retrospective approach, which means the standard is applied to only the current period. Any significant impact as a result of this adoption is discussed in the results of operations detail below. See note 4, Revenue Recognition, in the notes to the accompanying condensed consolidated financial statements for further discussion.

The Company early adopted ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04") which requires a goodwill impairment to be recognized as the difference of the fair value and the carrying value of the reporting unit. See note 5, Goodwill, in the notes to the accompanying condensed consolidated financial statements for further discussion.

The Company also adopted ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12") which simplifies the application of hedge accounting guidance. The standard was early adopted effective January 1, 2018, and an opening equity adjustment of $605,000 was recognized that reduced Accumulated deficit, offset by a gain in Accumulated other comprehensive income (loss). There was no material impact as a result of this adoption to the results of operations detail below. See note 1, Basis of Presentation, in the notes to the accompanying condensed consolidated financial statements for further discussion.

Attrition

Account cancellation, otherwise referred to as subscriber attrition, has a direct impact on the number of subscribers that the Company services and on its financial results, including revenues, operating income and cash flow. A portion of the subscriber base can be expected to cancel its service every year. Subscribers may choose not to renew or to terminate their contract for a variety of reasons, including relocation, cost, switching to a competitor's service and limited use by the subscriber and thus low perceived value. The largest categories of canceled accounts relate to subscriber relocation or the inability to contact the subscriber. The Company defines its attrition rate as the number of canceled accounts in a given period divided by the weighted average of number of subscribers for that period. The Company considers an account canceled if payment from the subscriber is deemed uncollectible or if the subscriber cancels for various reasons. If a subscriber relocates but continues its service, this is not a cancellation. If the subscriber relocates, discontinues its service and a new subscriber takes over the original subscriber's service continuing the revenue stream, this is also not a cancellation. The Company adjusts the number of canceled accounts by excluding those that are contractually guaranteed by its dealers. The typical dealer contract provides that if a subscriber cancels in the first year of its contract, the dealer must either replace the canceled account with a new one or refund to the Company the cost paid to acquire the contract. To help ensure the dealer's obligation to the Company, the Company typically maintains a dealer funded holdback reserve ranging from 5-8% of subscriber accounts in the guarantee period. In some cases, the amount of the holdback liability is less than actual attrition experience.

The table below presents subscriber data for the twelve months endedSeptember 30, 2018 and 2017:

	Twelve Months Ended September 30,	
	2018	2017
Beginning balance of accounts	998,087	1,059,634
Accounts acquired	110,358	103,650
Accounts canceled (b)	(161,657)	(157,896)
Canceled accounts guaranteed by dealer and other adjustments (a) (b)	(4,631)	(7,301)
Ending balance of accounts	942,157	998,087
Monthly weighted average accounts	965,026	1,033,150
Attrition rate - Unit (b)	16.8 %	15.3 %
Attrition rate - RMR (b) (c)	14.1 %	13.9 %

(a) Includes canceled accounts that are contractually guaranteed to be refunded from holdback.

(b) Accounts canceled for the twelve months ending September 30, 2017 were recast to include an estimated 4,945 accounts included in the Company's Radio Conversion Program that canceled in excess of their expected attrition.

(c) The recurring monthly revenue ("RMR") of canceled accounts follows the same definition as subscriber unit attrition as noted above. RMR attrition is defined as the RMR of canceled accounts in a given period, adjusted for the impact of price increases or decreases in that period, divided by the weighted average of RMR for that period.

The unit attrition rate for the twelve months endedSeptember 30, 2018 and 2017 was 16.8% and 15.3%, respectively. Contributing to the increase in the unit attrition rate was fewer customers under contract or in the dealer guarantee period in the twelve months ended September 30, 2018, as compared to the prior period, and increased competition from new market entrants. The RMR attrition rate for the twelve months ended September 30, 2018 and 2017 was 14.1% and 13.9%, respectively. The relatively smaller increase in the RMR attrition rate for the twelve months ended September 30, 2018 was due to our more aggressive price increase strategy. There was also a modest increase to attrition attributed to subscriber losses related to the impacts of Hurricane Maria on the Company's Puerto Rico customer base.

We analyze our attrition by classifying accounts into annual pools based on the year of acquisition. We then track the number of accounts that cancel as a percentage of the initial number of accounts acquired for each pool for each year subsequent to its acquisition. Based on the average cancellation rate across the pools, the Company's attrition rate is very low within the initial 12 month period after considering the accounts which were replaced or refunded by the dealers at no additional cost to the Company. Over the next few years of the subscriber account life, the number of subscribers that cancel as a percentage of the initial number of subscribers in that pool gradually increases and historically has peaked following the end of the initial contract term, which is typically three to five years. Subsequent to the peak following the end of the initial contract term, the number of subscribers that cancel as a percentage of the initial number of subscribers in that pool declines.

Accounts Acquired

During the three months ended September 30, 2018 and 2017, the Company acquired 33,065 and 21,268 subscriber accounts, respectively, through its dealer and direct-to-consumer sales channels. During the nine months ended September 30, 2018 and 2017, the Company acquired 91,995 and 77,423 subscriber accounts, respectively, through its dealer and direct-to-consumer sales channels. Accounts acquired for the three and nine months ended September 30, 2018 reflect bulk buys of approximately 6,700 and 17,600 accounts, respectively. There were no bulk buys during the three months ended September 30, 2017. Accounts acquired for the nine months ended September 30, 2017 reflect bulk buys of approximately 3,500 accounts, respectively. The increase in accounts acquired for the three months is due to bulk buys and year over year growth in the dealer and direct-to-consumer sales channels. The increase in accounts acquired for the nine months is due to bulk buys and year over year growth in the direct-to-consumer sales channel which was partially offset by year over year decline in accounts acquired from the dealer channel.

RMR acquired during the three months ended September 30, 2018 and 2017 was $1,589,000 and $1,028,000, respectively. RMR acquired during the nine months ended September 30, 2018 and 2017 was $4,335,000 and $3,768,000, respectively.

Strategic Initiatives

Given the recent decreases in the generation of new subscriber accounts in our dealer channel and trends in subscriber attrition, the Company has implemented several initiatives related to account growth, creation costs, attrition and margin improvements.

Account Growth

We believe that generating account growth at a reasonable cost is essential to scaling our business and generating shareholder value. In recent years, acquisition of new subscriber accounts through our dealer channel has declined due to the attrition of large dealers, efforts to acquire new accounts from dealers at lower purchases prices, changes in consumer buying behavior and increased competition from technology, telecommunications and cable companies in the market. The Company currently has several initiatives in place to improve account growth, which include:

- Enhancing our brand recognition with consumers, which was recently bolstered by the rebranding to Brinks Home Security,
- Recruiting high quality dealers into the Brinks Home Security Authorized Dealer Program,
- Assisting new and existing dealers with training and marketing initiatives to increase productivity,
- Acquiring bulk accounts to supplement account generation,
- Offering third party equipment financing to consumers which is expected to assist in driving account growth at lower creation costs, and
- Growing the direct-to-consumer sales channel under the Brinks Home Security brand.

Creation Costs

We also consider the management of creation costs to be a key driver in improving the Company's financial results, as lower creation costs would improve the Company's profitability and cash flows. The initiatives related to managing creation costs include:

- Growing the direct-to-consumer sales channel with expected lower creation cost multiples, and
- Negotiating lower subscriber account purchase price multiples in our dealer channel.

In addition, we expect that new customers who subscribe to our services through our partnership with Nest will also contribute to lower creation cost multiples as it is expected that Nest equipment will be purchased up front by the consumer as opposed to subsidized by the Company.

Attrition

We have also experienced higher subscriber attrition rates in the past few years. While there are a number of factors impacting our attrition rate, we expect subscriber cancellations relating to a number of subscriber accounts that were acquired in bulk purchases during 2012 and 2013 from Pinnacle Security to decrease in the future.

Notwithstanding the anticipated decrease in future cancellations for these specific subscriber accounts, we have continued to develop our efforts to manage subscriber attrition, which we believe will help drive increases in our subscriber base and shareholder value. The Company currently has several initiatives in place to reduce subscriber attrition, which include:

- Maintaining high customer service levels,
- Using predictive modeling to identify subscribers with a higher risk of cancellation and engaging with these subscribers to obtain contract extensions on terms favorable to the Company, and
- Implementing effective pricing strategies.

Margin Improvement

We have also adopted initiatives to reduce expenses and improve our financial results, which include:

- Reducing our operating costs by right sizing the cost structure to the business and leveraging our scale,
- Implementing more sophisticated purchasing techniques, and
- Increasing use of automation.

While the uncertainties related to the successful implementation of the foregoing initiatives could impact the Company's ability to achieve net profitability and positive cash flows in the near term, we believe they will position the Company to improve its operating performance, increase cash flows and create shareholder value over the long-term.

Adjusted EBITDA

We evaluate the performance of our operations based on financial measures such as revenue and "Adjusted EBITDA." Adjusted EBITDA is defined as net income (loss) before interest expense, interest income, income taxes, depreciation, amortization (including the amortization of subscriber accounts, dealer network and other intangible assets), restructuring charges, stock-based compensation, and other non-cash or non-recurring charges. We believe that Adjusted EBITDA is an important indicator of the operational strength and performance of our business, including the business' ability to fund its ongoing acquisition of subscriber accounts, its capital expenditures and to service its debt. In addition, this measure is used by management to evaluate operating results and perform analytical comparisons and identify strategies to improve performance. Adjusted EBITDA is also a measure that is customarily used by financial analysts to evaluate the financial performance of companies in the security alarm monitoring industry and is one of the financial measures, subject to certain adjustments, by which our covenants are calculated under the agreements governing our debt obligations. Adjusted EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles in the United States ("GAAP"), should not be construed as an alternative to net income or loss and is indicative neither of our results of operations nor of cash flows available to fund all of our cash needs. It is, however, a measurement that we believe is useful to investors in analyzing our operating performance. Accordingly, Adjusted EBITDA should be considered in addition to, but not as a substitute for, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. Adjusted EBITDA is a non-GAAP financial measure. As companies often define non-GAAP financial measures differently, Adjusted EBITDA as calculated by Brinks Home Security should not be compared to any similarly titled measures reported by other companies.

Results of Operations

The following table sets forth selected data from the accompanying condensed consolidated statements of operations and comprehensive income (loss) for the periods indicated (dollar amounts in thousands).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net revenue	$ 137,156	138,211	$ 405,922	419,909
Cost of services	35,059	30,213	100,807	89,799
Selling, general and administrative, including stock-based and long-term incentive compensation	34,266	33,474	98,935	126,759
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	52,671	59,384	160,973	178,896
Interest expense	39,077	36,665	114,550	108,980
Income tax expense	1,346	1,767	4,039	5,330
Net loss	(33,840)	(25,536)	(301,839)	(96,653)
Adjusted EBITDA (a)	$ 71,282	76,910	$ 213,480	239,786
Adjusted EBITDA as a percentage of Net revenue	52.0%	55.6%	52.6%	57.1%
Expensed Subscriber acquisition costs, net				
Gross subscriber acquisition costs	$ 14,098	11,275	$ 38,923	29,758
Revenue associated with subscriber acquisition costs	(722)	(1,051)	(3,489)	(3,694)
Expensed Subscriber acquisition costs, net	$ 13,376	10,224	$ 35,434	26,064

(a) See reconciliation of Net loss to Adjusted EBITDA below.

Net revenue. Net revenue decreased $1,055,000, or 0.8%, and $13,987,000, or 3.3%, for the three and nine months ended September 30, 2018, respectively, as compared to the corresponding prior year periods. The decrease in net revenue is attributable to the lower average number of subscribers in 2018. This decrease was partially offset by an increase in average RMR per subscriber due to certain price increases enacted during the past twelve months. Average RMR per subscriber increased from $43.79 as of September 30, 2017 to $45.12 as of September 30, 2018. In addition, the Company recognized $4,216,000 and $6,986,000 increases in revenue for the three and nine months ended September 30, 2018, respectively, from the favorable impact of the new revenue recognition guidance, Topic 606, adopted effective January 1, 2018.

Cost of services. Cost of services increased $4,846,000, or 16.0%, and $11,008,000, or 12.3%, for the three and nine months ended September 30, 2018, respectively, as compared to the corresponding prior year periods. The increase is primarily due to expensing certain direct and incremental field service costs on new contracts obtained in connection with a subscriber move ("Moves Costs") of $2,437,000 and $7,074,000 for the three and nine months ended September 30, 2018, respectively. Upon adoption of Topic 606, all Moves Costs are expensed, whereas prior to adoption, certain Moves Costs were capitalized on the balance sheet. For comparative purposes, Moves Costs capitalized as Subscriber accounts, net for the three and nine months ended September 30, 2017 were $4,278,000 and $11,761,000, respectively. Furthermore, subscriber acquisition costs, which include expensed equipment and labor costs associated with the creation of new subscribers, increased to $4,591,000 and $12,521,000 for the three and nine months ended September 30, 2018, respectively, as compared to $3,307,000 and $8,774,000 for the three and nine months ended September 30, 2017, respectively. The increase is attributable to increased production volume in the Company's direct sales channel. Cost of services as a percent of net revenue increased from 21.9% and 21.4% for the three and nine months ended September 30, 2017, respectively, to 25.6% and 24.8% for the three and nine months ended September 30, 2018, respectively.

Selling, general and administrative. Selling, general and administrative costs ("SG&A") increased $792,000, or 2.4%, for the three months ended September 30, 2018, as compared to the corresponding prior year period. The increase is primarily attributable to rebranding expense and subscriber acquisition costs in SG&A associated with the creation of new subscribers. Subscriber acquisition costs in SG&A increased to $9,507,000 for the three months ended September 30, 2018 as compared to $7,968,000 for the three months ended September 30, 2017. These increases were offset by reduced stock-based compensation expense and severance expense. SG&A as a percent of net revenue increased from 24.2% for the three months ended September 30, 2017 to 25.0% for the three months ended September 30, 2018.

SG&A decreased $27,824,000, or 22.0%, for the nine months ended September 30, 2018, as compared to the corresponding prior year period. The decrease is primarily attributable to the $28,000,000 legal settlement recognized in the second quarter of 2017 in relation to class action litigation of alleged violation of telemarketing laws. Additionally, there were decreases in stock-based compensation expense and consulting fees related to company cost reduction initiatives. These decreases were offset by increases in SG&A subscriber acquisition costs associated with the creation of new subscribers. Subscriber acquisition costs increased to $26,402,000 for the nine months ended September 30, 2018 as compared to $20,984,000 for the nine months ended September 30, 2017. Another increase in SG&A contributing to the overall change period over period was rebranding expense. SG&A as a percent of net revenue decreased from 30.2% for the nine months ended September 30, 2017 to 24.4% for the nine months ended September 30, 2018.

Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets. Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets decreased $6,713,000 and $17,923,000, or 11.3% and 10.0%, for the three and nine months ended September 30, 2018, respectively, as compared to the corresponding prior year periods. The decrease is related to a lower number of subscriber accounts purchased in the last twelve months ended September 30, 2018 compared to the prior corresponding period as well as the timing of amortization of subscriber accounts acquired prior to the third quarter of 2017, which have a lower rate of amortization in 2018 based on the applicable double declining balance amortization method. Additionally, as discussed above, Moves Costs are expensed under Topic 606, whereas prior to adoption, these Moves Costs were capitalized on the balance sheet and amortized. This change resulted in a $1,870,000 and $5,633,000 decrease in amortization expense for the three and nine months ended September 30, 2018, respectively. The decrease is partially offset by increased amortization related to accounts acquired subsequent to September 30, 2017.

Interest expense. Interest expense increased $2,412,000 and $5,570,000, or 6.6% and 5.1%, for the three and nine months ended September 30, 2018, respectively, as compared to the corresponding prior year periods. The increase in interest expense is attributable to increases in the Company's revolving credit facility activity, higher interest rates from increasing LIBOR rates and increased amortization of debt discount and deferred debt costs under the effective interest rate method.

Income tax expense from continuing operations. The Company had pre-tax loss from continuing operations of $32,494,000 and $297,800,000 and income tax expense of $1,346,000 and $4,039,000 for the three and nine months ended September 30, 2018, respectively. The Company had pre-tax loss from continuing operations of $23,769,000 and $91,323,000 and income tax expense of $1,767,000 and $5,330,000 for the three and nine months ended September 30, 2017, respectively. Income tax expense for the three and nine months ended September 30, 2018 and 2017 is attributable to the Company's state tax expense and the deferred tax impact from amortization of deductible goodwill related to the Company's business acquisitions. The decrease in income tax expense is primarily attributable to the impact of the decrease in the U.S. federal corporate income tax rate from 35% to 21% as a result of new tax reform legislation enacted in the fourth quarter of 2017.

Net loss. The Company had net loss of $33,840,000 for the three months ended September 30, 2018, as compared to $25,536,000 for the three months ended September 30, 2017. The increase in net loss is primarily attributable to the $5,697,000 refinancing expense incurred in the third quarter of 2018 related to the Senior Notes. The remaining increase is driven by decreases in operating income (which is discussed above) and increases in interest expense.

The Company had net loss of $301,839,000 for the nine months ended September 30, 2018, as compared to $96,653,000 for the nine months ended September 30, 2017. The increase in net loss is primarily attributable to the $214,400,000 goodwill impairment recognized in the second quarter of 2018 and reductions in net revenue offset by the $28,000,000 legal settlement reserve recognized in the second quarter of 2017 as discussed above.

Adjusted EBITDA. The following table provides a reconciliation of Net loss to total Adjusted EBITDA for the periods indicated (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$ (33,840)	(25,536)	$ (301,839)	(96,653)
Amortization of subscriber accounts, deferred contract acquisition costs and other intangible assets	52,671	59,384	160,973	178,896
Depreciation	2,880	2,170	8,360	6,415
Stock-based compensation	373	1,311	803	2,759
Radio conversion costs	—	74	—	383
Legal settlement reserve	—	—	—	28,000
Severance expense (a)	—	1,248	—	1,275
LiveWatch acquisition contingent bonus charges	63	391	187	1,746
Rebranding marketing program	3,060	—	6,355	880
Integration / implementation of company initiatives	195	390	195	2,420
Gain on revaluation of acquisition dealer liabilities	(240)	(954)	(240)	(1,358)
Impairment of capitalized software	—	—	—	713
Loss on goodwill impairment	—	—	214,400	—
Interest expense	39,077	36,665	114,550	108,980
Refinancing expense	5,697	—	5,697	—
Income tax expense	1,346	1,767	4,039	5,330
Adjusted EBITDA	$ 71,282	76,910	$ 213,480	239,786

(a) Severance expense related to a reduction in headcount event and transitioning executive leadership at Brinks Home Security.

Adjusted EBITDA decreased $5,628,000, or 7.3%, and $26,306,000, or 11.0%, for the three and nine months ended September 30, 2018, respectively, as compared to the corresponding prior year periods. The decrease is primarily the result of lower revenues, the expensing of subscriber moves in 2018 and an increase in subscriber acquisition costs as discussed above.

Expensed Subscriber acquisition costs, net. Subscriber acquisition costs, net increased to $13,376,000 and $35,434,000 for the three and nine months ended September 30, 2018, respectively, as compared to $10,224,000 and $26,064,000 for the three and nine months ended September 30, 2017, respectively. The increase in subscriber acquisition costs, net is primarily attributable to increase in volume of direct sales subscriber acquisitions year over year.

Liquidity and Capital Resources

At September 30, 2018, we had $26,835,000 of cash and cash equivalents. Our primary sources of funds are our cash flows from operating activities which are generated from alarm monitoring and related service revenues. During the nine months ended September 30, 2018 and 2017, our cash flow from operating activities was $74,458,000 and $127,227,000, respectively. The primary drivers of our cash flow from operating activities are the fluctuations in revenues and operating expenses as discussed in "Results of Operations" above. In addition, our cash flow from operating activities may be significantly impacted by changes in working capital.

During the nine months ended September 30, 2018 and 2017, the Company used cash of $111,531,000 and $119,081,000, respectively, to fund subscriber account acquisitions, net of holdback and guarantee obligations. In addition, during the nine months ended September 30, 2018 and 2017, the Company used cash of $11,513,000 and $9,999,000, respectively, to fund its capital expenditures.

On September 27, 2018, the Company borrowed an incremental $26,691,000 on its Credit Facility revolver (as defined below) to fund its October 1, 2018 interest payment due under the Senior Notes.

Our existing long-term debt at September 30, 2018 includes the aggregate principal balance of $1,834,100,000 under (i) the senior notes totaling $585,000,000 in principal, maturing on April 1, 2020 and bearing interest at 9.125% per annum (the

“Senior Notes”), (ii) the Ascent Intercompany Loan totaling $12,000,000 in principal, maturing on October 1, 2020 and bearing interest at12.5% per annum (the “Ascent Intercompany Loan”), and (iii) the $1,100,000,000 senior secured term loan and $295,000,000 super priority revolver under the sixth amendment to the Brinks Home Security secured credit agreement dated March 23, 2012, as amended (the “Credit Facility”). The Senior Notes have an outstanding principal balance of $585,000,000 as of September 30, 2018. The Ascent Intercompany Loan has an outstanding principal balance of$12,000,000. The Credit Facility term loan has an outstanding principal balance of $1,078,000,000 as of September 30, 2018 and requires principal payments of $2,750,000 per quarter with the remaining amount becoming due on September 30, 2022. The Credit Facility revolver has an outstanding balance of $159,100,000 as of September 30, 2018 and becomes due on September 30, 2021. The maturity date for each of the term loan and the revolving credit facility under the Credit Facility is subject to a springing maturity 181 days prior to the scheduled maturity date of the Senior Notes, or October 3, 2019, if we are unable to refinance the Senior Notes by that date. In addition, if we are unable to refinance the Senior Notes, or demonstrate the ability to meet our financial covenants for a period of twelve months after the issuance date, prior to the filing with the SEC of our Annual Report on Form 10-K for the year ended December 31, 2018, we may be subject to a going concern qualification in connection with our external audit report, which would be an event of default under the Credit Facility. At any time after the occurrence of an event of default under the Credit Facility, the lenders may, among other options, declare any amounts outstanding under the Credit Facility immediately due and payable and terminate any commitment to make further loans under the Credit Facility.

In considering our liquidity requirements for the next twelve months, we evaluated our known future commitments and obligations. On September 24, 2018, Ascent Capital and Brinks Home Security entered into a Transaction Support Agreement (which was amended and restated pursuant to the Amended and Restated Transaction Support Agreement, entered into on October 30, 2018 (the "Amended and Restated Support Agreement")) with certain holders collectively owning or controlling not less than $380 million aggregate principal amount of the Senior Notes, representing approximately 65% of the Senior Notes (collectively, the "Consenting Noteholders"). The Amended and Restated Support Agreement incrementally included a group of lenders for the Credit Facility term loan holding over 50% of the aggregate outstanding principal amount of the Credit Facility term loan (collectively, the "Credit Facility Lenders"). The Consenting Noteholders and Credit Facility Lenders have committed to support and fully participate in proposed agreed upon transactions that would result in the refinancing of the Senior Notes, if consummated. While management continues to negotiate refinancing terms with its debt holders, as of the issuance date of these financial statements, the Company has not refinanced the Senior Notes and there can be no assurances that the negotiations management is pursuing will result in the consummation of transactions that would refinance the Senior Notes.

Excluding consideration of a springing maturity event or going concern qualification, we will require the availability of funds to finance our strategy to grow through the acquisition of subscriber accounts. We considered our expected operating cash flows as well as the borrowing capacity of our Credit Facility revolver, under which we could borrow an additional $135,900,000 as of September 30, 2018, subject to certain financial covenants. We expect that cash on hand, cash flow generated from operations and available borrowings under our Credit Facility revolver will provide sufficient liquidity to finance our strategy.

We may seek capital contributions from Ascent Capital or debt financing in the event of any new investment opportunities, additional capital expenditures or our operations requiring additional funds, but there can be no assurance that we will be able to obtain capital contributions from Ascent Capital or debt financing on terms that would be acceptable to us or at all. Our ability to seek additional sources of funding depends on our future financial position and results of operations, which are subject to general conditions in or affecting our industry and our customers and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

Item 3. *Quantitative and Qualitative Disclosure about Market Risk*

Interest Rate Risk

We have exposure to changes in interest rates related to the terms of our debt obligations. The Company uses derivative financial instruments to manage the exposure related to the movement in interest rates. The derivatives are designated as hedges and were entered into with the intention of reducing the risk associated with variable interest rates on the debt obligations. We do not use derivative financial instruments for trading purposes.

Tabular Presentation of Interest Rate Risk

The table below provides information about our outstanding debt obligations and derivative financial instruments that are sensitive to changes in interest rates. Interest rate swaps are presented at their fair value amount and by maturity date as of September 30, 2018. Debt amounts represent principal payments by maturity date as of September 30, 2018, assuming no springing maturity of both the term loan and the revolving credit facility under the Credit Facility.

Year of Maturity	Fixed Rate Derivative Instruments, net (a)	Variable Rate Debt	Fixed Rate Debt	Total
	(Amounts in thousands)			
Remainder of 2018	$ —	$ 2,750	$ —	$ 2,750
2019	—	11,000	—	11,000
2020	—	11,000	597,000	608,000
2021	—	170,100	—	170,100
2022	(16,425)	1,042,250	—	1,025,825
2023	—	—	—	—
Thereafter	—	—	—	—
Total	$ (16,425)	$ 1,237,100	$ 597,000	$ 1,817,675

(a) The derivative financial instruments reflected in this column include four interest rate swaps with a maturity date in 2022. As a result of these interest rate swaps, the Company's effective weighted average interest rate on the borrowings under the Credit Facility term loans was 7.99% as of September 30, 2018. See notes 7, 8 and 9 to our accompanying condensed consolidated financial statements included in this Quarterly Report for further information.

Item 4. *Controls and Procedures*

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer and chief financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company’s disclosure controls and procedures were effective as of September 30, 2018 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

There has been no change in the Company’s internal controls over financial reporting that occurred during the three months ended September 30, 2018 that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. *Legal Proceedings*

On August 27, 2018, holders purporting to own approximately 68% of Ascent Capital's 4.00% Convertible Senior Notes due 2020 (the "Convertible Notes") filed a complaint in the Court of Chancery in the State of Delaware against Ascent Capital and each of its directors and executive officers.

On September 5, 2018, holders purporting to own approximately 69% of the Convertible Notes filed an amended complaint in the Court of Chancery of the State of Delaware against Ascent Capital and each of its directors and executive officers, and a motion for a preliminary injunction seeking to prevent Ascent Capital from consummating the exchange offer related to the Senior Notes of Brinks Home Security announced by Ascent Capital and Brinks Home Security on August 30, 2018.

On October 1, 2018, holders purporting to own approximately 78% of the Convertible Notes filed a second amended complaint in the Court of Chancery of the State of Delaware against Ascent Capital and each of its directors and executive officers, and an amended motion for a preliminary injunction seeking to prevent Ascent Capital from consummating the transactions announced by Ascent Capital and Brinks Home Security on September 25, 2018.

On October 22, 2018, the Court of Chancery of the State of Delaware entered a Third Scheduling Order Governing Plaintiffs' Motion for Preliminary Injunction ("the Scheduling Order"). The Scheduling Order provides, among other things, that the preliminary injunction hearing will be held on December 5, 2018.

On November 2, 2018, holders purporting to own approximately 53% of the Convertible Notes (the "Plaintiffs") filed a third amended complaint (the "Third Amended Complaint") in the Court of Chancery of the State of Delaware against Ascent Capital and each of its directors and executive officers. The Third Amended Complaint alleges that Ascent Capital's participation in the transactions announced by Ascent Capital and Brinks Home Security on October 30, 2018 (the "October 30th Transactions") would be detrimental to Ascent Capital and, if consummated, would result in Ascent Capital becoming insolvent. The Third Amended Complaint further alleges that the October 30th Transactions would (i) result in a breach of Ascent Capital's directors' fiduciary duties to Ascent Capital and (ii) constitute a constructive or intentional fraudulent transfer by using assets of Ascent Capital necessary for the repayment of the Notes for other purposes. The Third Amended Complaint seeks (i) injunctive relief to prevent Ascent Capital from engaging in the October 30th Transactions, which would allegedly dissipate Ascent Capital's assets, and (ii) a declaratory judgment that approval of the October 30th Transactions constitutes a breach of fiduciary duty by Ascent Capital's directors and that consummation of the October 30th Transactions would constitute a fraudulent transfer by Ascent Capital. Also on November 2, 2018, the Plaintiffs filed an amended motion for a preliminary injunction seeking to prevent Ascent Capital from consummating the October 30th Transactions.

The Third Amended Complaint could be amended, or similar claims could be brought, challenging the October 30th Transactions, and we cannot assure you that such claims will be unsuccessful, will not require us to pay damages (including costs and expenses of the action) or will not have a material effect on any such October 30th Transactions. Ascent Capital believes that the claims in the Third Amended Complaint are meritless, and Ascent Capital intends to vigorously defend against this action.

Item 6. ***Exhibits***

Listed below are the exhibits which are included as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

10.1	Transaction Support Agreement, dated as of September 24, 2018, by and among Ascent Capital, Monitronics International, Inc. (“MONI”) and certain holders of MONI’s 9.125% Senior Notes due 2020 (the "Consenting Noteholders") (incorporated by reference to Exhibit 10.1 to MONI’s Current Report on Form 8-K (File No. 333-110025), filed with the Commission on September 25, 2018).
10.2	First Amendment to Transaction Support Agreement, dated as of October 16, 2018, by and among Ascent Capital, MONI and the Consenting Noteholders (incorporated by reference to Exhibit 10.1 to MONI’s Current Report on Form 8-K (File No. 333-110025), filed with the Commission on October 17, 2018).
10.3	Amended and Restated Transaction Support Agreement, dated as of October 30, 2018, by and among Ascent Capital, MONI, the Consenting Noteholders and a group of holders of Term B-2 Loans under MONI’s Credit Facility (incorporated by reference to Exhibit 10.1 to MONI’s Current Report on Form 8-K (File No. 333-110025), filed with the Commission on October 30, 2018).
31.1	Rule 13a-14(a)/15d-14(a) Certification. *
31.2	Rule 13a-14(a)/15d-14(a) Certification. *
32	Section 1350 Certification. **
101.INS	XBRL Instance Document. *
101.SCH	XBRL Taxonomy Extension Schema Document. *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. *
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document. *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. *

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MONITRONICS INTERNATIONAL, INC.

Date:	November 6, 2018	By:	/s/ Jeffery R. Gardner
			Jeffery R. Gardner
			President and Chief Executive Officer
Date:	November 6, 2018	By:	/s/ Fred A. Graffam
			Fred A. Graffam
			Senior Vice President and Chief Financial Officer
			(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Jeffery R. Gardner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monitronics International, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2018

/s/ Jeffery R. Gardner

Jeffery R. Gardner

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Fred A. Graffam, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Monitronics International, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2018

/s/ Fred A. Graffam

Fred A. Graffam

Senior Vice President and Chief Financial Officer

Exhibit 32

Certification
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Monitronics International, Inc., a Texas corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the period endedSeptember 30, 2018 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017.

Dated:	November 6, 2018	/s/ Jeffery R. Gardner
		Jeffery R. Gardner
		President and Chief Executive Officer
Dated:	November 6, 2018	/s/ Fred A. Graffam
		Fred A. Graffam
		Senior Vice President and Chief Financial Officer
		(Principal Financial and Accounting Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.