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 December 31, 2006

☐ **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)

Texas	**74-2719343**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2350 Valley View Lane, Suite 100
Dallas, Texas 75234
(Address of principal executive offices)
(Zip Code)

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

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 is a large accelerated filer, accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Title of Each Class	Outstanding at January 31, 2007
Class A Common Stock, par value $.01 per share	31,102,317
Class B Common Stock, par value $.01 per share	None

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

MONITRONICS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31, 2006 (Unaudited)	June 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 1,016	$ 862
Accounts receivable, less allowance for doubtful accounts of $1,512 as of December 31, 2006 and $1,763 as of June 30, 2006	7,643	6,888
Prepaid expenses and other current assets	2,496	1,154
Total current assets	11,155	8,904
Property and equipment, net	10,537	10,102
Subscriber accounts, net of accumulated amortization of $466,960 as of December 31, 2006 and $434,095 as of June 30, 2006	470,015	470,112
Deferred financing costs, net	8,257	9,643
Goodwill	14,795	14,795
Total assets	$ 514,759	$ 513,556
Liabilities and Shareholders' Net Capital		
Current liabilities:		
Accounts payable	$ 1,713	$ 2,794
Accrued expenses	3,398	3,261
Purchase holdbacks	8,734	8,676
Deferred revenue	5,325	5,405
Interest payable	7,142	6,508
Taxes payable	698	124
Current portion of long-term debt	11,987	7,185
Total current liabilities	38,997	33,953
Non-current liabilities:		
Long-term debt, less current portion	424,036	421,076
Redeemable preferred stock, net	50,388	48,098
Total non-current liabilities	474,424	469,174
Commitments and contingencies		
Shareholders' net capital:		
Class A common stock, $.01 par value:		
Authorized shares — 80,000,000		
Issued and outstanding shares — 31,102,317 shares as of December 31, 2006 and 31,102,317 shares as of June 30, 2006	311	311
Class B common stock, $.01 par value:		
Authorized shares — 700,000		
Issued and outstanding shares — none	—	—
Additional paid-in capital	124,819	124,819
Treasury stock, at cost, 968,722 shares as of December 31, 2006 and 915,099 shares as of June 30, 2006	(9,673)	(9,358)
Accumulated deficit	(114,119)	(105,343)
Total shareholders' net capital	1,338	10,429
Total liabilities and shareholders' net capital	$ 514,759	$ 513,556

See accompanying notes.

MONITRONICS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2006	2005	2006	2005
	(In thousands)			
Revenue	$ 48,158	$ 46,605	$ 95,688	$ 91,557
Cost of services	6,770	5,704	12,760	11,212
Gross profit	41,388	40,901	82,928	80,345

Operating expenses:				
Sales, general and administrative	8,870	9,153	17,660	17,894
Depreciation	574	546	1,190	1,163
Amortization	23,058	22,136	45,770	43,619
	32,502	31,835	64,620	62,676
Operating income	8,886	9,066	18,308	17,669
Other expense:				
Interest expense	13,307	12,245	26,426	23,164
	13,307	12,245	26,426	23,164
Loss before income taxes	(4,421)	(3,179)	(8,118)	(5,495)
Provision for income taxes	331	5	658	18
Net loss	$ (4,752)	$ (3,184)	$ (8,776)	$ (5,513)

See accompanying notes.

MONITRONICS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended December 31,	
	2006	2005
	(In thousands)	
Operating Activities		
Net loss	$ (8,776)	$ (5,513)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	46,960	44,782
Amortization of deferred financing costs	1,386	1,388
Provision for bad debt	1,450	1,900
Non-cash interest expense for redeemable preferred stock	2,290	700
Non-cash interest accretion	344	329
Non-cash Adjustment related to put option	(21)	303
Changes in current assets and liabilities:		
Accounts receivable (excluding provision for bad debt)	(2,205)	(2,825)
Prepaid expenses and other current assets	(1,342)	90
Accounts payable	(1,081)	(283)
Accrued expenses	137	441
Accrued interest	634	(367)
Deferred revenue	(80)	(725)
Income taxes payable and receivable	574	135
Net cash provided by operating activities	40,270	40,355
Investing Activities		
Purchases of property and equipment	(1,625)	(2,420)
Sale of land	—	40
Purchases of subscriber accounts (net of holdbacks)	(45,615)	(49,668)
Net cash used in investing activities	(47,240)	(52,048)
Financing Activities		
Purchase of treasury stock	(500)	—
Proceeds from credit facility	32,200	42,050
Payments of credit facility	(24,576)	(28,776)
Net cash provided by financing activities	7,124	13,274
Increase (decrease) in cash and cash equivalents	154	1,581
Cash and cash equivalents at beginning of period	862	190
Cash and cash equivalents at end of period	$ 1,016	$ 1,771
Significant cash transactions during the period for:		
Interest paid	$ 21,568	$ 20,850
Non-cash investing and financing activities:		
Dividend election on redeemable preferred stock (see Note 4- Redeemable Preferred Stock	$ —	$ 45,212

See accompanying notes.

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Monitronics International, Inc. and its wholly-owned subsidary, Monitronics Canada, Inc., (collectively "the Company") provide security alarm monitoring and related services to residential and business subscribers throughout the United States and North America. The Company monitors signals arising from burglaries, fires, and other events through security systems installed by independent dealers at subscribers' premises.

The accompanying interim unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles. In the opinion of management, the accompanying interim unaudited financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations for the interim periods.

Consolidation Policy

The Company consolidates companies in which it owns or controls, directly or indirectly, more than fifty percent of the voting shares. The Company eliminates all material inter-company balances and transactions.

Stock Compensation

On July 1, 2006, the Company adopted Statement No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)"), issued by the Financial Accounting Standards Board ("FASB"), to account for stock-based employee compensation arrangements. Under the "prospective" transition method, the Company will continue to account for nonvested awards outstanding at the date of adoption of SFAS 123(R) in the same manner as they had been accounted for under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*("APB 25"). All awards granted or modified after the date of adoption will be accounted for using the measurement and recognition provisions of SFAS 123(R). Proforma disclosure for outstanding awards accounted for under the intrinsic-value method of APB 25 will no longer be necessary.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation 48 ("FIN 48"),*Accounting for Uncertainty in Income Taxes,* which is an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 on or before July 1, 2007. The Company is currently evaluating the requirements of FIN 48 but has not determined what, if any, impact it will have on the Company's consolidated financial statements.

2. Non-Current Liabilities

Non-current liabilities consist of the following (in thousands):

	December 31, 2006	June 30, 2006
Revolving credit line and term loan payable	$ 253,963	$ 246,338
Senior subordinated notes payable	160,000	160,000
Subordinated notes payable	22,299	22,017
Investor put option (see Note 3 (Related Party Transactions))	348	556
Redeemable preferred stock (see Note 4 (Redeemable Preferred Stock))	50,388	48,098
	486,998	477,009
Less: discount	587	650
Less: current portion	11,987	7,185
	$ 474,424	$ 469,174

On August 25, 2003, the Company entered into its existing $320 million credit facility agreement comprised of a $175.0 million term loan that matures in fiscal year 2010 and a $145.0 million revolving credit facility that matures in fiscal year 2009. Payments under the term loan are payable in quarterly installments from December 31, 2003 through June 30, 2009. The quarterly payment is calculated based upon the amount of the original facility multiplied by 0.25% for the quarters ended December 31, 2003 through September 30, 2006, 1.25% for the quarters ended December 31, 2006 through September 30, 2007 and 3.00% for the quarters ended December 31, 2007 through June 30, 2009 with the remaining balance due at maturity. As of December 31, 2006, the Company had $86.4 million in borrowings outstanding under the $145 million revolving credit line and had $167.5 million in borrowings outstanding under the term loan. Further, the Company had $58.6 million in availability under the revolving credit line of which $37.7 million was immediately available as calculated under the covenants in the Company's credit facility, and is charged a commitment fee of 0.5% on the average daily unused portion. The revolving credit line bears interest at a rate of either prime plus 2.25% or LIBOR plus 3.25%. The term loan bears interest at a rate of either prime plus 2.75% or LIBOR plus 3.75%. For the six months ended December 31, 2006, borrowings under the credit facility had a weighted average interest rate of 9.0%. Interest incurred on borrowings is payable monthly in arrears.

On March 28, 2005, the Company amended certain provisions of its credit facility dated August 25, 2003 that included elimination of mandatory reductions to the revolving credit facility, a 75 basis point reduction in the variable interest rate for its revolving credit line and term loan, and a 25 basis point reduction in commitment fees at its current borrowing level.

On August 25, 2003, the Company issued $160.0 million of senior subordinated notes (the "Senior Subordinated Notes") at 11.75% at a discount of $0.94 million with a maturity date of September 1, 2010. Interest payments are to be made semi-annually in cash in arrears on March 1 and September 1 of each year.

Proceeds from the issuance of the Senior Subordinated Notes and borrowings under the credit facility in August 2003 were used primarily to repay the Company's prior credit facility and its $12 million senior subordinated notes payable, to repurchase $20.5 million principal amount of its subordinated notes at a repurchase price of approximately $23.2 million and to pay debt issuance costs. As part of the August 2003 refinancing, the terms of the then-remaining $20.5 million principal amount of the subordinated notes were amended, and the maturity date was extended to March 1, 2010. Interest on the subordinated notes originally accrued at 13.5% per annum with interest payable semi-annually at a rate of 12% per annum with the remaining 1.5% interest per annum added to the outstanding principal amount of the subordinated notes. The 1.5% interest rate increased to 2.5% per annum on December 15, 2003 when the subordinated notes were not repurchased by that date, and the increased rate was applied retroactively to August 25, 2003.

The credit facility and subordinated notes have certain financial tests which must be met on a quarterly basis, including maximum total senior debt and total debt to quarterly annualized net operating income, minimum interest coverage ratio, minimum fixed charge coverage ratio and an annual capital expenditure limit. Indebtedness under the credit facility is secured by all of the assets of the Company. As of December 31, 2006, the Company was in compliance with all required financial tests.

On August 18, 2003, the Company entered into an agreement with the Hull Family Limited Partnership (the "Partnership") and Mr. James R. Hull, the Company's then president and chief executive officer, as amended on September 23, 2004, that allowed for the put of $500,000 in value of Class A common stock to the Company in each fiscal year beginning in fiscal 2005 and ending June 30, 2009. As of December 31, 2006, the Partnership had sold the Company $1,500,000 worth of Class A common stock. The fair value of the remaining investor put option was $0.3 million at December 31, 2006. See Note 3 (Related Party Transactions) to these consolidated financial statements.

Scheduled maturities (as defined) of long-term debt at December 31, 2006, utilizing the required payment schedule of the Senior Subordinated Notes, subordinated notes, credit facility and the fair value of the investor put option are as follows for fiscal years below (in thousands):

2007	$ 4,550
2008	68,500
2009	107,400
2010	146,548
2011	160,000
Thereafter	—
	$ 486,998

3. Related Party Transactions

Concurrently with the Senior Subordinated Notes offering, the Company entered into an agreement with James R. Hull, the Company's then president and chief executive officer, and the Hull Family Limited Partnership (the "Partnership") pursuant to which the Company paid Mr. Hull a $2 million transaction fee in cash at the closing of the refinancing on August 25, 2003. This fee was capitalized as deferred financing costs. On November 7, 2003, the Partnership exercised its right to require the Company to purchase 400,000 shares of Class A common stock at a purchase price of $1 million in cash. Based on the fair value of the Company's stock, no expense was recorded related to the repurchase of the Partnership's shares. The agreement also gives the Partnership and Mr. Hull a written investor put option to sell up to a combined total of $500,000 in value of Class A common stock to the Company in each of the five fiscal years ending June 30, 2009 at purchase prices per share that are based on a multiple of the Company's consolidated cash flow. As of December 31, 2006, the Partnership had sold the Company 182,805 shares of Class A common stock for $1,500,000. As of December 31, 2006, the outstanding liability for the put option was $0.3 million. The Company will adjust its liability and related SG&A expense as the fair value of the put option changes.

On July 14, 2004, the Company completed a series of transactions which it refers to as the "recapitalization." In the recapitalization, the Company redeemed approximately $5.6 million of the Series C and C-1 preferred stock held by Windward Capital Partners II, L.P. and Windward Capital LP II, LLC (collectively the "Windward entities") and then issued shares of a new Series A preferred or Class A common stock to its preferred shareholders in exchange for all of their preferred stock, Class A common stock and warrants to purchase Class A common stock. The preferred shareholders determined the number of shares to be received in the exchange based on the liquidation preference of, and accrued but unpaid dividends on, the existing preferred shares as of July 14, 2004 for the shares held by the Windward entities and as of June 30, 2003 for the remaining preferred shares. The Company's preferred shareholders agreed to value the Class A common stock and new Series A preferred stock received in the exchange at $6.00 per share. The valuation was based on a negotiation amongst the Company's preferred shareholders and the agreement of New York Life Capital Partners II, L.P. and PPM America Private Equity Fund L.P. to subsequently purchase the shares of Class A common stock received by the Windward entities in the exchange for $6.00 per share. No independent third party valuations or appraisal opinions were obtained by the preferred shareholders or board of directors during the negotiation process. The Company's lenders and preferred shareholders consented to the recapitalization as required under the terms of the Company's applicable agreements.

The Company's preferred shareholders also negotiated the terms of the new Series A preferred stock issued to Austin Ventures III-A, L.P., Austin Ventures III-B, L.P., Austin Ventures V, L.P. and Austin Ventures V Affiliates Fund, L.P. The Company's board of directors and the holders of at least two-thirds of the outstanding shares of Class A common stock, Series A preferred stock, Series B preferred stock, Series C preferred stock, Series C-1 preferred stock and Series D-1 preferred stock, each voting as a separate class as required by the Company's articles of incorporation, approved the amendment and restatement of the Company's articles of incorporation to create the new Series A preferred stock. On November 4, 2005, the holders of the Company's Series A preferred stock notified it of their election for the Series A preferred stock to begin accruing dividends as permitted under the Company's articles of incorporation (the "Dividend Election"). As a result of the Dividend Election, the Company must redeem the Series A preferred stock on June 30, 2008 (see Note 4 — Redeemable Preferred Stock).

4. Redeemable Preferred Stock

As of December 31, 2006, there were 8,247,075 shares of Series A preferred stock authorized of which 8,175,075 shares were issued and outstanding. On November 4, 2005, the holders of the Company's Series A preferred stock notified it of their election for the Series A preferred stock to begin accruing dividends as permitted under the Company's articles of incorporation. As a result of the Dividend Election, the Company must redeem the Series A preferred stock on June 30, 2008. The terms of the Series A preferred stock following the Dividend Election are described below.

Accounting Treatment

As a result of the Dividend Election made on November 4, 2005, the Company recorded the Series A preferred stock as a debt instrument by reclassifying, from additional paid-in capital to a long-term liability, the amount necessary to adjust the Series A preferred stock to its fair value as of the date of the Dividend Election. The Company obtained an independent valuation of the Series A preferred stock to determine the fair value of the Series A preferred stock. On November 4, 2005, the fair value of the of the Series A preferred stock was $45.2 million. The fair value of the liability will be accreted to the redemption amount of $57.9 million payable at June 30, 2008 using the interest rate implicit at the Dividend Election date. As of December 31, 2006, the Company reported a liability for the Series A preferred stock of $50.4 million consisting of $45.2 million as of November 4, 2005, which was the fair value of the Series A Preferred stock, plus accrued interest of $5.2 million. The liquidation preference of the Series A preferred stock as of December 31, 2006 is $49.6 million as calculated per the Company's articles of incorporation (see Liquidation Preference below).

Series A Preferred Stock Dividend Preferences

Dividends will accrue on the Company's Series A preferred stock at an annual rate of 8% until the first anniversary of the Dividend Election, and thereafter will increase by an additional 2% per annum on each subsequent anniversary of the Dividend Election date up to a maximum annual rate of 16%. If the Company fails to redeem the Series A preferred stock on June 30, 2008, the maximum dividend rate shall be increased from 16% to the greater of 24% and the maximum rate permitted by law.

The dividend rate will also increase by an additional 3% per annum above the then-applicable rate and by an additional 1% per annum at the end of each 90-day period thereafter (up to a maximum annual rate of 24%) following covenant defaults (as defined below) or if the Company issues senior securities or incurs certain indebtedness that causes the Company's leverage ratio to exceed an initial multiple of 5.1 times annualized EBITDA (see Liquidation Preference below) until such noncompliance is cured. If the Company's leverage ratio exceeds an initial multiple of 4.8 times annualized EBITDA other than as a result of its issuance of additional senior securities or indebtedness that triggers the increased dividends described in the preceding sentence, the dividend rate will increase by an additional 2% per annum (up to a maximum annual rate of 24%). The initial multiples are subject to increases to reflect subsequent debt or equity issuances.

Dividends are payable solely in cash when and as declared by the Company's board of directors and only if sufficient cash is available to make the dividend payment. The Company may not pay dividends if a default exists or the payment of dividends would create a default under its credit facility or the indenture relating to the Senior Subordinated Notes.

Voting Rights

If the Company undertakes any of the actions described hereunder without first obtaining the consent of the holders of a majority of the then-outstanding shares of Series A preferred stock (referred to as a covenant or leverage default), the Liquidation Value will be recalculated at that time using the formula provided in the terms of the Series A preferred stock included in the Company's articles of incorporation (see Liquidation Preference below).

Except as provided below or otherwise required by law, holders of Series A preferred stock will have no voting rights. On matters specifically requiring the vote of the Series A preferred stock voting as a separate class, holders of Series A preferred stock will be entitled to one vote per share of Series A preferred stock held by the holders. The holders of a majority of the outstanding shares of Series A preferred stock, voting as a separate class, must approve:

· Any change in the nature of the Company's business;

· The issuance of securities that rank senior to, or pari passu with, the Series A preferred stock, or the incurrence of certain indebtedness, subject to limited exceptions;

· The issuance of additional Series A preferred stock other than to holders who received Series A preferred stock in the recapitalization or their permitted transferees;

· A redemption or repurchase of company securities that rank junior to, or pari passu or senior to, the Series A preferred stock, subject to limited exceptions;

· The declaration or payment of dividends or distributions on any company security that ranks junior to, or pari passu or senior to, the Series A preferred stock, subject to limited exceptions;

· The Company's entry into agreements that prohibit it from performing its obligations in respect of the Series A preferred stock or which prohibit the exercise of the right of the holders of Series A preferred stock to require a sale of the company or other voting rights;

· Acquisitions in excess of $100 million;

· Amendment of the Company's articles of incorporation or bylaws to increase the authorized shares of Series A preferred stock or adversely affect or otherwise impair the rights or relative preferences or priorities of the Series A preferred stock, other than to establish or amend senior securities otherwise permitted to be issued;

· The Company's entry into or amendment of agreements with affiliates, subject to limited exceptions; or

· The Company's establishment, acquisition of or ownership of any equity securities of ABRY or its affiliates.

Conversion Rights

Following the November 4, 2005 Dividend Election, the Company's Series A preferred stock is no longer convertible into Class A common stock.

Redemption Rights

The Company must redeem the Series A preferred stock upon the closing of a qualified public offering at a per share price equal to the Liquidation Value (as defined below) plus accrued and unpaid dividends (the "Redemption Price"). The Company must also redeem the Series A preferred stock at the Redemption Price per share on June 30, 2008 (the "Mandatory Redemption Date"). If the Company has not redeemed the Series A preferred stock by the first anniversary of the Mandatory Redemption Date, the holders of a majority of the outstanding Series A preferred stock may elect to initiate the sale or liquidation of the Company. The Company may redeem the Series A preferred stock at its option at any time prior to the Mandatory Redemption Date.

Notwithstanding the foregoing mandatory and optional redemption provisions, the Company cannot redeem the Series A preferred stock while the Senior Subordinated Notes are outstanding or if prohibited under its credit facility.

Liquidation Preference

The Series A preferred stock will have a liquidation preference per share based on the Liquidation Value (as defined below) plus accrued and unpaid dividends. As of December 31, 2006, the Series A preferred stock had an aggregate liquidation preference of $49.6 million consisting of a Liquidation Value of $45.2 million as of November 4, 2005, which was the fair value of the Series A preferred stock, plus accrued and unpaid dividends of $4.4 million.

If the Company undertakes any of the actions described under "Voting Rights" above without first obtaining the consent of the holders of a majority of the then-outstanding shares of Series A preferred stock (referred to as a covenant or leverage default), the Liquidation Value will be recalculated at that time using the formula provided in the terms of the Series A preferred stock included in the Company's articles of incorporation. The Series A preferred stock will then have a new Liquidation Value equal to the amount that would be received by the holders of the Series A preferred stock upon a liquidation of the Company assuming liquidation proceeds equal to (a) the sum of (i) annualized EBITDA for the most recently completed fiscal quarter multiplied by 5.5 as adjusted according to the terms of the Series A preferred stock depending on the type of covenant or leverage default, plus (ii) company cash in excess of $2.0 million, less (b) company debt (as defined in the articles of incorporation) (the "Liquidation Value").

5. Commitments and Contingencies

The Company is party to various legal proceedings and claims that have arisen in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not have a material impact on the Company's financial position or results of operations.

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

We are a leading national provider of security alarm monitoring services. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements, and the related notes to those financial statements, included in Part I - Item 1 of this Quarterly Report on Form 10-Q. Those statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are not historical in nature should be considered to be forward-looking statements that are inherently uncertain. See "Forward-Looking Statements."

Forward-Looking Statements

Certain statements contained or incorporated by reference in this Quarterly Report on Form 10-Q including, without limitation, statements containing the words "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology, are forward-looking statements within the meaning of the federal securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other matters which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors, risks and uncertainties that could cause actual outcomes and results to be materially different from those projected include, among others, the following:

- our high degree of leverage;
- our anticipated growth strategies;
- anticipated trends and conditions in our business, including trends in the market;
- our ability to acquire and integrate additional accounts;
- our expected rate of subscriber attrition;
- our ability to continue to control costs and maintain quality;
- our ability to compete;
- the impact of "false alarm" ordinances on our results of operations;
- changes in technology and the trend away from the use of public switched telephone network lines to communicate with our monitoring center; and
- our ability to obtain additional funds to grow our business.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They can be affected by inaccurate assumptions we might make or by known or unknown risks, uncertainties and assumptions. Reference is hereby made to the disclosures contained under the heading "Risk Factors" in "Part I - Item 1A." of the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 20, 2006. In light of these risks, uncertainties and assumptions, the forward-looking statements may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. When you consider these forward-looking statements, you should keep in mind these risk factors and other cautionary statements.

Our forward-looking statements speak only as of the date made. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless the securities laws require us to do so.

Overview

Nearly all of our revenues are derived from monthly recurring revenues under security alarm monitoring contracts purchased from independent dealers in our exclusive nationwide network. Our alarm monitoring contracts generally have a non-cancelable initial term of three years, generally allow for periodic price increases and provide for automatic renewals. Revenues are recognized as the related monitoring services are provided. Other revenues are derived primarily from the provision of third-party contract monitoring services and from field technical repair services.

Cost of services primarily consists of direct labor associated with monitoring and servicing subscriber accounts and expenses related to field technical repair services. Sales, general and administrative expenses primarily include the cost of personnel conducting sales and administrative activities and other costs related to sales, administration and operations. All direct external costs associated with the creation of subscriber accounts are capitalized and amortized over ten years using a 135% declining balance method. Internal costs, including all personnel and related support costs incurred solely in connection with subscriber account acquisitions and transitions, are expensed as incurred.

Attrition

We purchase subscriber contracts from our exclusive network of independent dealers. These contracts with our subscribers are typically three-year non-cancelable contracts with automatic renewal provisions. A portion of our subscriber base can be expected to cancel its service every year. Subscribers may choose not to renew or terminate their contract for a variety of reasons, including relocation, economic reasons, switching to our competitors' service and service issues.

Account cancellation, otherwise referred to as subscriber attrition, has a direct impact on the number of subscribers we serve and hence our financial results, including revenues, operating income and cash flow. We define our attrition rate as the number of canceled accounts in a given period divided by the average of the beginning and ending balance of subscribers for that period. We consider an account canceled when a subscriber terminates in accordance either with the terms of the contract, our cancellation policies, or if payment from the subscriber is deemed uncollectible. If a subscriber relocates but continues service, this is not a cancellation. If the subscriber relocates and discontinues service and a new subscriber takes over the service continuing the revenue stream, this is a cancellation and a new owner takeover. Accounts canceled are therefore net of new owner takeovers. We also adjust the number of canceled accounts by excluding those that are contractually guaranteed by our dealers. Our typical dealer contract provides that if a subscriber cancels in the first year of its contract, the dealer must replace the lost monthly revenue attributable to the canceled contract and either replace the canceled account with a new one or refund our purchase price. To help ensure the dealer's obligation to us, we typically hold back a portion of the purchase price for every account we purchase. In some cases, the amount of the purchase holdback may be less than actual attrition experience. In recent years, a substantial portion of the accounts that canceled within this initial 12-month period were replaced or refunded by the dealers at no additional cost to us.

We also analyze our attrition by classifying our accounts into annual pools based on the year of purchase. We then track the number of accounts that cancel as a percentage of the initial number of accounts purchased for each pool for each year subsequent to its purchase. Based on the average cancellation rate across our pools, we achieve nearly 0% attrition in the first year net of canceled accounts that are contractually guaranteed by our dealers. In the next three years, the number of subscribers that cancel as a percentage of the initial number of subscribers in that pool gradually increases and historically has peaked during the few months following the end of the initial term which is typically 36 months. The peak is primarily a result of the buildup of subscribers that moved or no longer had need for the service prior to the third year but did not cancel their service until the end of their three-year contract. After the fourth year, the number of subscribers that cancel as a percentage of the initial number of subscribers in that pool declines. As a result, we believe our attrition rate decreases as the age of our accounts increase beyond the initial three-year contract.

The table below presents subscriber data for the twelve months ended December 31, 2006 and 2005:

	Twelve Months Ended December 31,	
	2006	2005
Beginning balance of accounts	485,933	450,412
Accounts purchased	71,681	95,130
Accounts canceled(1)	(65,488)	(57,428)
Accounts guaranteed to be refunded from holdback	(3,319)	(2,181)
Ending balance of accounts	488,807	485,933
Attrition rate	13.4%	12.3%

(1) Net of canceled accounts that are contractually guaranteed by the dealer and new owner takeovers.

We saw an expected rise in attrition over the past six months which resulted in an increase in our trailing twelve-month attrition rate to 13.4% for the period ended December 31, 2006 versus 12.3% for the period ended December 31, 2005. This increase in attrition was primarily due to significantly more subscribers than typical reaching the end of their initial 3-year term during the period due to higher purchase volumes in the summer of 2003. As discussed above, our pool attrition data shows that attrition rates peak during the few months following the end of the initial term and then decrease beyond that point.

Results of Operations

Three Months Ended December 31, 2006 Compared to Three Months Ended December 31, 2005

Revenues. Total revenues were $48.2 million in the three months ended December 31, 2006 compared to $46.6 million in the three months ended December 31, 2005, which was an increase of $1.6 million, or 3%. This increase was primarily attributable to an increase in the average revenue per subscriber, as well as higher field technical service revenue.

Cost of services. Cost of services was $6.8 million for the three months ended December 31, 2006 compared to $5.7 million for the three months ended December 31, 2005, which was an increase of $1.1 million, or 19%. As a percentage of revenues, cost of services was 14.1% for the three months ended December 31, 2006 compared to 12.2% for the three months ended December 31, 2005 due to higher field technical service expense. The increase in attrition and accounts coming to the end of their initial term caused us to increase our complimentary service work and upgrades in an effort to retain customers. The increase was partially offset by higher service revenue.

Sales, general and administrative (SG&A). SG&A was $8.9 million for the three months ended December 31, 2006 compared to $9.2 million for the three months ended December 31, 2005, which was a decrease of $0.3 million, or 3%. As a percentage of revenues, SG&A was 18.5% for the three months ended December 31, 2006 versus 19.7% for the three months ended December 31, 2005. The decrease in SG&A expense as a percent of revenue was primarily due to a lower allowance for doubtful accounts, a reduction in expense related to adjusting the fair value of a written put option (as described in Note 3), and lower professional fees related to routine litigation.

Amortization. Amortization of intangibles was $23.1 million in the three months ended December 31, 2006 compared to $22.1 million in the three months ended December 31, 2005, which was an increase of $1.0 million, or 5%. The increase was attributable to the purchase of subscriber accounts through our authorized dealer program.

Interest expense. Interest expense was $13.3 million in the three months ended December 31, 2006 compared to $12.2 million in the three months ended December 31, 2005, which was an increase of $1.1 million, or 9%. The increase resulted from increases in variable interest rates and this year's results including a full quarter of interest expense related to the Dividend Election made by our redeemable preferred shareholders on November 4, 2005 (see Note 4 (Redeemable Preferred Stock) to our consolidated financial statements included in this Quarterly Report on Form 10-Q).

Net loss. Net loss was $4.8 million in the three months ended December 31, 2006 compared to a net loss of $3.2 million in the three months ended December 31, 2005. The increase in net loss was primarily due to higher interest expense.

Six Months Ended December 31, 2006 Compared to Six Months Ended December 31, 2005

Revenues. Total revenues were $95.7 million in the six months ended December 31, 2006 compared to $91.6 million in the six months ended December 31, 2005, which was an increase of $4.1 million, or 4%. This increase was primarily attributable to an increase in the average revenue per subscriber, as well as growth in the average number of subscriber accounts and higher field technical service revenue.

Cost of services. Cost of services was $12.8 million in the six months ended December 31, 2006 compared to $11.2 million in six months ended December 31, 2005, which was an increase of $1.6 million, or 14%. As a percentage of revenues, cost of services was 13.3% for the six months ended December 31, 2006 and 12.2% for the six months ended December 31, 2005 due to higher field technical service expense. The increase in attrition and accounts coming to the end of their initial term caused us to increase our complimentary service work and upgrades in an effort to retain customers.The increase was partially offset by higher service revenue.

Sales, general and administrative. SG&A was $17.7 million in the six months ended December 31, 2006 compared to $17.9 million in the six months ended December 31, 2005, which was a decrease of $0.2 million, or 1%. As a percentage of revenues, SG&A was 18.5% for the six months ended December 31, 2006 and 19.5% for the six months ended December 31, 2005. The decrease in SG&A expense as a percentage of revenues was primarily due to a lower allowance for doubtful accounts, a reduction in expense related to adjusting the fair value of a written put option (as described in Note 3), and lower professional fees related to ongoing legal matters.

Amortization. Amortization of intangibles was $45.8 million in the six months ended December 31, 2006 compared to $43.6 million in the six months ended December 31, 2005, which was an increase of $2.2 million, or 5%. The increase was attributable to growth in our purchased subscriber accounts through our authorized dealer program.

Interest expense. Interest expense was $26.4 million in the six months ended December 31, 2006 compared to $23.2 million in the six months ended December 31, 2005, which was an increase of $3.2 million, or 14%. The increase resulted from increases in variable rates and this year's results including a full six months of interest expense related to the Dividend Election made by the redeemable preferred shareholders on November 4, 2005 (see Note 4 - Redeemable Preferred Stock).

Net loss. Net loss was $8.8 million in the six months ended December 31, 2006 compared to a net loss of $5.5 million in the six months ended December 31, 2005. The increase in net loss was primarily due to higher interest expense.

Liquidity and Capital Resources

General. Our operating strategy requires the availability of significant funds to finance growth through subscriber account purchases. Additional cash requirements include debt service and capital expenditures. We have financed our growth from a combination of long-term borrowings, issuance of preferred stock, and cash flows provided by operations.

Major components of our working capital include accounts receivable, deferred revenue, purchase holdbacks, accrued interest payable and the current portion of long-term debt. We expect to experience negative working capital in the future primarily due to accrued interest payable and purchase holdbacks. Purchase holdbacks are dependent on the number of subscriber accounts we purchase, the timing and amount of our payment of the purchase holdbacks to dealers, and the percentage of the purchase price we withhold to ensure a dealer's obligation during the guarantee period. Accrued interest payable is dependent on the level of our debt and the timing of interest payments.

As of December 31, 2006 and June 30, 2006, we had working capital deficits of $27.8 million and $25.0 million, respectively. Changes in our working capital deficit included an increase in the current portion of long-term debt resulting from an increase in the repayment rate on our term loan principal from 0.250% in each quarter of fiscal year 2006 and in the first quarter of fiscal year 2007 to 1.250% in each of the last three quarters of fiscal year 2007.

Net cash provided by operating activities for the six months ended December 31, 2006 was $40.3 million compared to $40.4 million for the six months ended December 31, 2005.

Net cash used in investing activities for the six months ended December 31, 2006 was $47.2 million, compared to $52.0 million for the six months ended December 31, 2005. For the six months ended December 31, 2006, capital expenditures were $1.6 million versus $2.4 million for the six months ended December 31, 2005. Capital expenditures were primarily for upgrading computer systems. Capital expenditures are expected to vary based on the growth of our subscriber account base and improvements to our technology, operating and financial systems. Purchases of subscriber accounts consist of all direct external payments associated with the creation of subscriber accounts. The portion of the purchase holdback paid to dealers at the end of the guarantee period is included in this amount when paid. The decrease in subscriber account purchases to $45.6 million from $49.7 million primarily reflects discontinuing account purchases from our largest dealer during second quarter of fiscal year 2006.

Our net cash provided by financing activities for the six months ended December 31, 2006 was $7.1 million compared to $13.3 million for the six months ended December 30, 2005.

As of December 31, 2006, we had $254.0 million outstanding under our credit facility, bearing interest at a weighted average rate for the six months ended December 31, 2006 of approximately 9.0% per annum, and we had approximately $58.6 million in borrowing availability under our revolving credit line, of which $37.7 million was immediately available as calculated under the covenants in our credit facility. In addition, we had $182.3 million in principal amount outstanding of senior subordinated and subordinated notes as of December 31, 2006.

As of December 31, 2006, there were 8,247,075 shares of Series A preferred stock authorized of which 8,175,075 shares were issued and outstanding. On November 4, 2005, the holders of our Series A preferred stock notified us of their election for the Series A preferred stock to begin accruing dividends as permitted under our articles of incorporation (the "Dividend Election"). As a result of the Dividend Election, we must redeem the Series A preferred stock on June 30, 2008. If we have not redeemed the Series A preferred stock on June 30, 2008, the dividend rate will increase to the greater of 24% and the maximum rate permitted by law. If we have not redeemed the Series A preferred stock by June 30, 2009, the holders of a majority of the outstanding Series A preferred stock may elect to initiate the sale or liquidation of the Company.

As a result of the Dividend Election made on November 4, 2005, we recorded the Series A preferred stock as a liability by reclassifying, from additional paid-in capital to a long-term liability, the amount necessary to adjust the Series A preferred stock to its fair value as of the Dividend Election date. We obtained an independent valuation of the Series A preferred stock to determine the fair value of the Series A preferred stock. On November 4, 2005, the fair value of the Series A preferred stock was $45.2 million. The fair value of the liability will be accreted to the redemption amount of $57.9 million to be paid at June 30, 2008 using the interest rate implicit at the Dividend Election date. As of December 31, 2006, we reported a liability for the Series A preferred stock of $50.4 million consisting of $45.2 million as of November 4, 2005, which was the fair value of the Series A Preferred stock, plus accrued interest of $5.2 million. The liquidation preference of the Series A preferred stock as of December 31, 2006 is $49.6 million as calculated per our articles of incorporation (see Liquidation Preference in Note 4 - Redeemable Preferred Stock to the consolidated financial statements, included in this Quarterly Report on Form 10-Q).

On March 28, 2005, we amended certain provisions of our credit facility dated August 25, 2003 that included elimination of mandatory reductions to the revolving credit facility, a 75 basis point reduction in the variable interest rate for our revolving credit line and term loan, and a 25 basis point reduction in commitment fees at our current borrowing level.

On August 25, 2003, we issued $160.0 million of senior subordinated notes at 11.75% with a maturity date of September 1, 2010. Interest payments are to be made semi-annually in cash in arrears on March 1 and September 1 of each year beginning on March 1, 2004. On December 16, 2004, we completed an exchange offer in which we exchanged new notes that were registered under the Securities Act of 1933 for the senior subordinated notes.

Further on August 25, 2003, we entered into a new credit facility agreement with Fleet National Bank ("Fleet") as administrative agent, Bank of America, N.A. as syndication agent, and a syndicate of lenders, including Fleet and Bank of America, N.A., as amended on July 14, 2004. Our credit facility is comprised of a $175.0 million term loan that matures in fiscal 2010 and a $145.0 million revolving credit facility that matures in fiscal 2009. Indebtedness under the credit facility is secured by all of our assets. Payments under the term loan are payable in quarterly installments from December 31, 2003 through June 30, 2009. The quarterly payment is calculated based upon the amount of the original facility multiplied by 0.25% for the quarters ended December 31, 2003 through September 30, 2006, 1.25% for the quarters ended December 31, 2006 through September 30, 2007 and 3.00% for the quarters ended December 31, 2007 through June 30, 2009 with the remaining balance due at maturity. We used the borrowings under this credit facility together with the proceeds of the senior subordinated notes offering primarily to

repay our prior credit facility, to repay all of our $12 million 12% senior subordinated notes due June 30, 2007, and to repurchase $20.5 million principal amount of our 14.5% subordinated notes due March 1, 2010 at a repurchase price of approximately $23.2 million. In connection with our August 2003 refinancing, we amended the terms of our subordinated notes to extend the maturity date of the then remaining $20.5 million principal amount from January 18, 2009 to March 1, 2010. Prior to the amendment, interest accrued on the subordinated notes at 13.5% per annum with interest payable semi-annually in cash at a rate of 12% per annum with the remaining 1.5% interest per annum added to the outstanding principal amount of the subordinated notes. The 1.5% per annum interest rate increased to 2.5% per annum on December 15, 2003 and the increased rate applied retroactively to August 25, 2003.

We will require substantial cash flow to fully implement our business strategy and meet our principal and interest obligations with respect to the senior subordinated notes and our other indebtedness. We anticipate that cash flow generated from operations and borrowings under our credit facility will provide sufficient liquidity to fund these requirements for the foreseeable future. Following the August 2003 refinancing, we continue to have significant borrowing capacity under our credit facility. This capacity coupled with anticipated cash flow from operations is expected to meet and satisfy our short-term obligations.

We further preserve our borrowing capacity by following a cash management practice of maintaining a low ongoing cash balance. However, our ability to meet our debt service and other obligations depends on our future performance, which in turn is subject to general economic conditions and other factors, certain of which are beyond our control. If we are unable to generate sufficient cash flow from operations or otherwise to comply with the terms of the indenture governing the senior subordinated notes or our other debt instruments, we may be required to refinance all or a portion of our existing debt or obtain additional financing. Further, the agreements or indentures governing our credit facility, our senior subordinated notes and subordinated notes contain financial covenants relating to capital expenditure limits, maximum total debt to annualized quarterly EBITDA, maximum total senior debt to annualized quarterly EBITDA, interest coverage and fixed charge coverage that may impact our ability to refinance all or a portion of our existing debt or obtain additional financing. As of December 31, 2006, we were in compliance with all required financial tests.

Critical Accounting Policies

Our discussion and analysis of results of operations and financial condition are based upon our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”). The preparation of financial statements in accordance with GAAP requires management to use judgment in making estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. We base our estimates and assumptions on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions are evaluated on an ongoing basis. Due to the nature of certain assets and liabilities, there are uncertainties associated with some of the judgments, assumptions and estimates which are required to be made. Reported results could have been materially different under a different set of assumptions and estimates for certain accounting principle applications.

Consolidation Policy. We consolidate companies in which we own or control, directly or indirectly, more than fifty percent of the voting shares. We eliminate all material inter-company balances and transactions.

Long Lived Assets—Subscriber Accounts. Subscriber accounts relate to the cost of acquiring portfolios of monitoring service contracts from independent dealers. The subscriber accounts are recorded at cost. All direct external costs associated with the creation of subscriber accounts are capitalized. Internal costs, including all personnel and related support costs, incurred solely in connection with subscriber account acquisitions and transitions are expensed as incurred. The cost of subscriber account pools are amortized using the 10-year 135% declining balance method. Subscriber accounts are amortized in pools because of the accounts’ homogeneous characteristics resulting primarily from the extremely disciplined due diligence program that we have implemented in which a contract must meet certain purchase criteria before we will purchase that account. All of our customers contract for essentially the same service and we are consistent in providing that service regardless of the customers’ locations.

A 10-year 135% declining balance amortization method was selected to provide a matching of amortization expense to individual subscriber revenues based on historical performance of our subscriber base. The realizable value and remaining useful lives of these assets could be impacted by changes in subscriber attrition rates, which could have an adverse effect on our earnings.

We review the subscriber accounts for impairment or a change in amortization period whenever events or changes indicate that the carrying amount of the asset may not be recoverable or the life should be shortened. For purposes of recognition and measurement of an impairment loss, we view subscriber accounts as a single pool because of the assets’ homogeneous characteristics, which is the lowest level for which identifiable cash flows are largely independent of the cash flows of the other assets and liabilities. If we determine that an impairment has occurred, we write the subscriber accounts down to their fair value.

Income Taxes and Deferred Tax Assets. As part of preparing our financial statements, significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and the need for a valuation allowance related to our deferred tax assets. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, especially the amortization of subscriber accounts, which are amortized using a 10-year 135% declining balance method for financial reporting purposes and are generally amortized using a 10-year straight-line method for tax purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet. We must then in accordance with Financial Accounting Standards Board Statement No. 109, *Accounting for Income Taxes*, assess the realizability of the deferred tax assets. Accordingly, we have fully reserved our net deferred tax assets primarily as a result of experiencing a cumulative loss before income taxes for the three-year period ended June 30, 2006. We also considered possible tax planning strategies. In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion, or all of the deferred tax assets, will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income (including reversals of deferred tax liabilities) during the periods in which those temporary differences will become deductible.

Goodwill. As of December 31, 2006, we had goodwill of $14.8 million, which represents 2.9% of our total assets. We test goodwill annually for impairment and record an impairment charge if the carrying amount exceeds the fair value. We use a discounted cash flow approach as well as other methods to determine the fair value used in our test for impairment of goodwill. The results of this methodology depend upon a number of estimates and assumptions relating to cash flows, discount rates and other matters. Accordingly, such testing is subject to certain uncertainties, which could cause the fair value of goodwill to fluctuate from period to period.

Recent Accounting Pronouncements

In June 2006, the FASB issued FASB Interpretation 48 ("FIN 48"),*Accounting for Uncertainty in Income Taxes,* which is an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. We will adopt FIN 48 on or before July 1, 2007. We are currently evaluating the requirements of FIN 48 but have not determined what, if any, impact it will have on our consolidated financial statements.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined in Regulation S-K Item 303(a)(4)(ii)(A)-(D), that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have interest rate risk, in that borrowings under our credit facility are based on variable market interest rates. As of December 31, 2006, we had $254.0 million of variable rate debt outstanding under our credit facility. Presently, the revolving credit line bears interest at a rate of prime plus 2.25% or LIBOR plus 3.25%, with the term loan at a rate of prime plus 2.75% or LIBOR plus 3.75%. To control our exposure to interest rates under our facility, we utilize interest rate caps. As of December 31, 2006, we were not required to purchase interest rate caps. A hypothetical 10% increase in our credit facility's weighted average interest rate of 9.0% per annum for the six months ended December 31, 2006 would correspondingly decrease our earnings and operating cash flows by approximately $1.1 million.

Our privately issued $22.3 million subordinated notes due March 1, 2010 have a fixed interest rate of 14.5%, but have exposure to changes in the debt's fair value. In connection with our August 2003 refinancing, we amended the terms of these subordinated notes to extend the maturity date from January 18, 2009 to March 1, 2010 and to increase the interest rate from 13.5% per annum to 14.5% per annum. In addition, we issued $160.0 million aggregate principal amount of our senior subordinated notes due September 1, 2010 with a fixed interest rate of 11.75%, which has exposure to changes in the debt's fair value. We believe that the fair value of our total subordinated debt is approximately $181.4 million (book value of $182.3 million). The fair value of our total subordinated debt is based on the quoted market price of our senior subordinated debt.

Item 4. Controls and Procedures

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e) under supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 are effective in timely alerting them to material information required to be included in our periodic Securities and Exchange Commission filings. No significant changes were made to our internal controls over financial reporting or in other factors that have materially affected or are reasonably likely to materially affect these controls during our most recent fiscal quarter. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events.

PART II . OTHER INFORMATION

Item 1. Legal Proceedings

We are party to various legal proceedings and claims that have arisen in the ordinary course of our business. In the opinion of management, the amount of ultimate liability with respect to these actions will not have a material impact on our financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the years ended June 30, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

2.1 Recapitalization Agreement, dated July 14, 2004, among Monitronics International, Inc., Austin Ventures III-A, L.P., Austin Ventures III-B, L.P., Austin Ventures V, L.P., Austin Ventures V Affiliates Fund, Capital Resource Lenders II, L.P., ABRY Partners IV, L.P., ABRY Investment Partnership, L.P., Windward Capital Partners II, L.P., Windward Capital LP II, LLC, New York Life Capital Partners II, L.P., PPM America Private Equity Fund LP and The Northwestern Mutual Life

Insurance Company (previously filed as Exhibit 2.1 to Amendment No. 3 to the registrant's Registration Statement on Form S-4 (File No. 333-110025) and incorporated herein by reference)

3.1 Restated Articles of Incorporation of Monitronics International, Inc. (previously filed as Exhibit 3.1 to Amendment No. 3 to the registrant's Registration Statement on Form S-4 (File No. 333-110025) and incorporated herein by reference)

3.2 Bylaws of Monitronics International, Inc. (previously filed as Exhibit 3.2 to the registrant's Registration Statement on Form S-4 (File No. 333-1100025) and incorporated herein by reference)

31.1* Certification of the Chief Executive Officer of Monitronics International, Inc. pursuant to Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2* Certification of the Chief Financial Officer of Monitronics International, Inc. pursuant to Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1** Certification of the Chief Executive Officer of Monitronics International, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2** Certification of the Chief Financial Officer of Monitronics International, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* 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.

By: /s/ Michael R. Haislip
Michael R. Haislip
Chief Executive Officer and President
(Principal Executive Officer)

By: /s/ Michael R. Meyers
Michael R. Meyers
Chief Financial Officer and Vice President
(Principal Financial and Accounting Officer)

Date: February 13, 2007

EXHIBIT 31.1

CERTIFICATIONS

I, Michael R. Haislip, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant’s other certifying officer(s) 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)) for the registrant and 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 report is being prepared;

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

   c) Disclosed in this 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(s) 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: February 13, 2007

/s/ Michael R. Haislip
Michael R. Haislip
Chief Executive Officer and President
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATIONS

I, Michael R. Meyers, certify that:

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

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) 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)) for the registrant and 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 report is being prepared;

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

   c) Disclosed in this 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(s) 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: February 13, 2007

/s/ Michael R. Meyers
Michael R. Meyers
Chief Financial Officer and Vice President
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Monitronics International, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael R. Haislip, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Michael R. Haislip
Michael R. Haislip
Chief Executive Officer and President
(Principal Executive Officer)

Date: February 13, 2007

EXHIBIT 32.2

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Monitronics International, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael R. Meyers, Chief Financial Officer and Vice President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Michael R. Meyers
Michael R. Meyers
Chief Financial Officer and Vice President
(Principal Financial and Accounting Officer)

Date: February 13, 2007