# 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 June 30, 2013**

**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**<br>(State or other jurisdiction of incorporation or organization) | **74-2719343**<br>(I.R.S. Employer Identification No.) |
| **2350 Valley View Lane, Suite 100**<br>**Dallas, Texas**<br>(Address of principal executive offices) | **75234**<br>(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer ☒<br>(Do not check if a smaller reporting company) | Smaller reporting company ☐ |

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 August 14, 2013 Monitronics International, Inc. is a wholly owned subsidiary of Ascent Capital Group, Inc.



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**Item 1. *Financial Statements.***

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,537 | $ 3,433 |
| Restricted cash | 2,640 | 2,640 |
| Trade receivables, net of allowance for doubtful accounts of $1,575 in 2013 and $1,436 in 2012 | 12,114 | 10,891 |
| Deferred income tax assets, net | 5,100 | 5,100 |
| Prepaid and other current assets | 11,256 | 13,597 |
| Total current assets | 32,647 | 35,661 |
| | | |
| Property and equipment, net of accumulated depreciation of $13,398 in 2013 and $10,189 in 2012 | 21,327 | 20,559 |
| Subscriber accounts, net of accumulated amortization of $393,760 in 2013 and $308,487 in 2012 | 1,020,664 | 987,975 |
| Dealer network, net of accumulated amortization of $25,620 in 2013 and $20,580 in 2012 | 24,813 | 29,853 |
| Goodwill | 349,227 | 349,227 |
| Other assets, net | 24,844 | 22,156 |
| Total assets | $ 1,473,522 | $ 1,445,431 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,393 | $ 3,655 |
| Accrued payroll and related liabilities | 3,038 | 3,179 |
| Other accrued liabilities | 23,844 | 23,481 |
| Deferred revenue | 9,704 | 10,327 |
| Purchase holdbacks | 15,725 | 10,818 |
| Current portion of long-term debt | 6,905 | 6,950 |
| Total current liabilities | 64,609 | 58,410 |
| | | |
| Non-current liabilities: | | |
| Long-term debt | 1,119,201 | 1,101,433 |
| Derivative financial instruments | 2,663 | 12,359 |
| Deferred income tax liability, net | 9,067 | 8,849 |
| Other liabilities | 3,995 | 3,961 |
| Total liabilities | 1,199,535 | 1,185,012 |
| | | |
| Commitments and contingencies | | |
| | | |
| Stockholders' equity: | | |
| Common stock, $.01 par value.1 share authorized, issued and outstanding at June 30, 2013 and December 31, 2012, respectively | — | — |
| Additional paid-in capital | 298,629 | 298,932 |
| Accumulated deficit | (24,329) | (26,270) |
| Accumulated other comprehensive loss | (313) | (12,243) |
| Total stockholders' equity | 273,987 | 260,419 |
| Total liabilities and stockholders' equity | $ 1,473,522 | $ 1,445,431 |

See accompanying notes to condensed consolidated financial statements.



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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |

| | | | | |
|---|---|---|---|---|
| Net revenue | $ 102,273 | 83,315 | $ 202,431 | 165,196 |
| Operating expenses: | | | | |
| Cost of services | 15,594 | 11,391 | 30,796 | 22,450 |
| Selling, general, and administrative, including stock-based and long-term incentive compensation | 18,113 | 14,653 | 34,016 | 29,004 |
| Amortization of subscriber accounts and dealer network | 45,998 | 39,349 | 90,313 | 77,430 |
| Depreciation | 1,721 | 1,320 | 3,209 | 2,622 |
| Gain on sale of operating assets | (2 ) | — | (2 ) | — |
| | 81,424 | 66,713 | 158,332 | 131,506 |
| Operating income | 20,849 | 16,602 | 44,099 | 33,690 |
| Other expense: | | | | |
| Interest expense | 19,466 | 19,347 | 40,593 | 30,969 |
| Realized and unrealized loss on derivative financial instruments, net | — | — | — | 2,044 |
| Refinancing expense | — | 4 | — | 6,245 |
| Other expense | — | 333 | — | 619 |
| | 19,466 | 19,684 | 40,593 | 39,877 |
| Income (loss) before income taxes | 1,383 | (3,082 ) | 3,506 | (6,187 ) |
| Income tax expense | 791 | 671 | 1,565 | 1,338 |
| Net income (loss) | 592 | (3,753 ) | 1,941 | (7,525 ) |
| Other comprehensive income (loss): | | | | |
| Unrealized gain (loss) on derivative contracts | 11,671 | (8,835 ) | 11,930 | (11,240 ) |
| Total Other comprehensive income (loss) | 11,671 | (8,835 ) | 11,930 | (11,240 ) |
| Comprehensive income (loss) | $ 12,263 | (12,588 ) | $ 13,871 | (18,765 ) |

See accompanying notes to condensed consolidated financial statements.



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

| | Six months ended June 30, 2013 | 2012 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 1,941 | (7,525 ) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Amortization of subscriber accounts and dealer network | 90,313 | 77,430 |
| Depreciation | 3,209 | 2,622 |
| Stock based compensation | 763 | 580 |
| Deferred income tax expense | 204 | 213 |
| Unrealized gain on derivative financial instruments | — | (6,793 ) |
| Refinancing expense | — | 6,245 |
| Long-term debt amortization | 387 | 4,101 |
| Other non-cash activity, net | 4,710 | 3,689 |
| Changes in assets and liabilities: | | |
| Trade receivables | (4,126 ) | (2,165 ) |
| Prepaid expenses and other assets | 1,928 | (216 ) |
| Payables and other liabilities | 1,385 | 6,729 |
| Net cash provided by operating activities | 100,714 | 84,910 |
| Cash flows from investing activities: | | |
| Capital expenditures | (3,978 ) | (2,479 ) |
| Purchases of subscriber accounts | (113,199 ) | (78,885 ) |
| Proceeds from sale of operating assets | 2 | — |
| Decrease in restricted cash | — | 51,420 |
| Net cash used in investing activities | (117,175 ) | (29,944 ) |
| Cash flows from financing activities: | | |
| Proceeds from long-term debt | 62,100 | 967,200 |
| Repayments of long-term debt | (44,764 ) | (977,375 ) |
| Payments of deferred financing costs and refinancing costs | (1,771 ) | (44,114 ) |
| Dividend to Ascent | (1,000 ) | (1,000 ) |
| Net cash provided by (used in) financing activities | 14,565 | (55,289 ) |

| | | |
|---|---|---|
| Net decrease in cash and cash equivalents | (1,896 ) | (323 ) |
| Cash and cash equivalents at beginning of period | 3,433 | 2,110 |
| Cash and cash equivalents at end of period | $ 1,537 | 1,787 |
| Supplemental cash flow information: | | |
| State taxes paid | $ 2,350 | 2,108 |
| Interest paid | 38,648 | 15,332 |

See accompanying notes to condensed consolidated financial statements.



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

## (1) Basis of Presentation

Monitronics International, Inc. and subsidiaries (the "Company" or "Monitronics") are wholly owned subsidiaries of Ascent Capital Group, Inc. ("Ascent Capital"). The Company provides security alarm monitoring and related services to residential and business subscribers throughout the United States and parts of Canada. The Company monitors signals arising from burglaries, fires, medical alerts and other events through security systems at subscribers' premises, as well as provides customer service and technical support.

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 ("U.S. GAAP") for complete financial statements. The Company's unaudited condensed consolidated financial statements as of June 30, 2013, and for the three and six months ended June 30, 2013 and 2012, include Monitronics 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 Monitronics Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on March 1, 2013 (the "2012 Form 10-K").

The preparation of financial statements in conformity with U.S. 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 goodwill, other intangible assets, long-lived assets, deferred tax assets, derivative financial instruments, and the amount of the allowance for doubtful accounts. 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) Recent Accounting Pronouncements

There were no new accounting pronouncements issued during the six months ended June 30, 2013 that are expected to have a material impact on the Company.

## (3) Other Accrued Liabilities

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Interest payable | $ 9,733 | $ 9,624 |
| Income taxes payable | 1,255 | 2,286 |
| Legal accrual | 9,831 | 9,324 |
| Other | 3,025 | 2,247 |
| Total Other accrued liabilities | $ 23,844 | $ 23,481 |



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## (4) Long-Term Debt

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| 9.125% Senior Notes due April 1, 2020 | $ 410,000 | $ 410,000 |
| Term loans, matures March 23, 2018, LIBOR plus 3.25%, subject to a LIBOR floor of 1.00% (a) | 682,506 | 685,583 |
| $ 150 million revolving credit facility, matures December 22, 2017, LIBOR plus 3.75%, subject to a LIBOR floor of 1.00% (b) | 33,600 | 12,800 |
| | 1,126,106 | 1,108,383 |
| Less current portion of long-term debt | (6,905 ) | (6,950 ) |
| Long-term debt | $ 1,119,201 | $ 1,101,433 |

(a) The interest rate on the term loan was LIBOR plus 4.25%, subject to a LIBOR floor of 1.25%, until March 25, 2013.

(b) The interest rate on the revolving credit facility was LIBOR plus 4.25%, subject to a LIBOR floor of 1.25%, until March 25, 2013.

*Senior Notes*

On March 23, 2012, the Company closed on a $410,000,000 privately placed debt offering of 9.125% Senior Notes due 2020 (the "Senior Notes"). The Senior Notes 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, beginning on October 1, 2012. In August 2012, the Company completed an exchange of the Senior Notes for identical securities in a registered offering under the Securities Act of 1933, as amended.

The Senior Notes are guaranteed by all of the Company's existing subsidiaries. Ascent Capital has not guaranteed any of the Company's obligations under the Senior Notes.

*Credit Facility*

On March 23, 2012, the Company entered into a senior secured credit facility with the lenders party thereto and Bank of America, N.A., as administrative agent, which provided a $550,000,000 term loan at a 1% discount and a $150,000,000 revolving credit facility (the "Credit Agreement"). Proceeds from the Credit Agreement and the Senior Notes, together with cash on hand, were used to retire all outstanding borrowings under the Company's former credit facility, securitization debt, and to settle all related derivative contracts (the "Refinancing").

On November 7, 2012, the Company entered into an amendment to the Credit Agreement ("Amendment No. 1"), which provided an incremental term loan with an aggregate principal amount of $145,000,000. The incremental term loan was used to fund the acquisition of approximately 93,000 subscriber accounts for a purchase price of approximately $131,000,000.

On March 25, 2013, the Company entered into a second amendment to the Credit Agreement ("Amendment No. 2"). Pursuant to Amendment No. 2, the Company repriced the interest rates applicable to the Credit Agreement's facility (the "Repricing") which is comprised of the term loans and revolving credit facility noted above (the Credit Agreement together with Amendment No. 1 and Amendment No. 2, the "Credit Facility"). Concurrently with the Repricing, the Company extended the maturity of the revolving credit facility by nine months to December 22, 2017.

The Credit Facility term loans bear interest at LIBOR plus 3.25%, subject to a LIBOR floor of 1.00%, and mature on March 23, 2018. Principal payments of approximately $1,726,000 and interest on the term loans are due quarterly. The Credit Facility revolver bears interest at LIBOR plus 3.75%, subject to a LIBOR floor of 1.00%, and matures on December 22, 2017. There is an annual commitment fee of 0.50% on unused portions of the Credit Facility revolver. As of June 30, 2013, $116,400,000 is available for borrowing under the revolving 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



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make further loans under the Credit Facility. In addition, 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 subsidiaries. Ascent Capital has not guaranteed any of the Company's obligations under the Credit Facility.

The Company recorded deferred financing costs of $24,236,000 related to the Senior Notes and Credit Facility, which are included in Other assets, net on the accompanying condensed consolidated balance sheet as of June 30, 2013, and will be amortized over the term of the respective debt instruments using the effective-interest method.

As a result of the Refinancing, the Company accelerated amortization of the securitization debt premium and certain deferred financing costs related to the former senior secured credit facility, and expensed certain other refinancing costs. The components of the Refinancing expense, reflected in the condensed consolidated statement of operations and comprehensive income (loss) as a component of Other income (expense) for the six months ended June 30, 2012, are as follows (amounts in thousands):

| | | For the six months ended June 30, 2012 |
|---|---|---|
| Accelerated amortization of deferred financing costs | $ | 389 |
| Accelerated amortization of securitization debt discount | | 6,679 |
| Other refinancing costs | | 7,628 |
| Gain on early termination of derivative instruments | | (8,451) |
| Total refinancing expense | $ | 6,245 |

In order to reduce the financial risk related to changes in interest rates associated with the floating rate term loans under the Credit Facility, the Company entered into two interest rate swap agreements (each with separate counterparties) in 2012, with terms similar to the Credit Facility term loans. On March 25, 2013, the Company negotiated amendments to the terms of these interest rate swap agreements (the "Swaps") to coincide with the Repricing. The Swaps have a maturity date of March 23, 2018 to match the term of the Credit Facility term loans. The Swaps have been designated as effective hedges of the Company's variable rate debt and qualify for hedge accounting. See note 5, Derivatives, for further disclosures related to these derivative instruments. As a result of the Swaps, the interest rate on the borrowings under the Credit Facility term loans have been effectively converted from a variable rate to a weighted average fixed rate of 5.03%.

The terms of the Senior Notes and Credit Facility provide for certain financial and nonfinancial covenants. As of June 30, 2013, the Company was in compliance with all required covenants.

Principal payments scheduled to be made on the Company's debt obligations are as follows (amounts in thousands):

| | | |
|---|---|---|
| Remainder of 2013 | $ | 3,452 |
| 2014 | | 6,905 |
| 2015 | | 6,905 |
| 2016 | | 6,905 |
| 2017 | | 40,505 |
| 2018 | | 655,976 |

| | | |
|---|---|---|
| Thereafter | | 410,000 |
| Total principal payments | | 1,130,648 |
| Less: Discount | | 4,542 |
| Total debt on condensed consolidated balance sheet | $ | 1,126,106 |

**(5) Derivatives**

The Company utilizes interest rate swap agreements to reduce the interest rate risk inherent in the Company's variable rate Credit Facility term loans. 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



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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 7, Fair Value Measurements, for additional information about the credit valuation adjustments.

On March 25, 2013, the Company negotiated amendments to the terms of its existing interest rate swap agreements to coincide with the repricing of the Credit Facility. The Swaps, as amended, are held with the same counterparties as the existing interest rate swap agreements. See the amended Swaps' outstanding notional balance as of June 30, 2013 and terms below:

| Notional | | Effective Date | Fixed Rate Paid | Variable Rate Received |
|---|---|---|---|---|
| $ | 543,125,000 | March 28, 2013 | 1.884% | 3 mo. USD-LIBOR-BBA, subject to a 1.00% floor |
| | 143,912,500 | March 28, 2013 | 1.384% | 3 mo. USD-LIBOR-BBA, subject to a 1.00% floor |

Upon entering into swap amendments on March 25, 2013, the Company simultaneously dedesignated its existing interest rate swap agreements and redesignated the Swaps as cash flow hedges for the underlying change in the swap terms. The amounts previously recognized in Accumulated other comprehensive loss relating to the dedesignation will be recognized in Interest expense over the remaining life of the Swaps. The amended 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 loss. Any ineffective portions of the Swaps change in fair value are recognized in current earnings in Interest expense. Changes in the fair value of the Swaps recognized in Accumulated other comprehensive loss are reclassified to Interest expense when the hedged interest payments on the underlying debt are recognized. Amounts in Accumulated other comprehensive loss expected to be recognized in Interest expense in the coming 12 months total approximately $4,872,000.

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

| | For the three months ended June 30, | | | For the six months ended June 30, | |
|---|---|---|---|---|---|
| | 2013 | | 2012 | 2013 | 2012 |
| Effective portion of gain (loss) recognized in Accumulated other comprehensive loss | $ 10,473 | | (9,954) | $ 9,564 | (12,457) |
| Effective portion of loss reclassified from Accumulated other comprehensive loss into Net income (a) | $ (1,198) | | (1,119) | $ (2,366) | (1,217) |
| Ineffective portion of amount of gain (loss) recognized into Net income on interest rate swaps (a) | $ 61 | | — | $ 80 | — |

(a) Amounts are included in Interest expense in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

On March 23, 2012, in connection with the Refinancing, the Company terminated all of its previously outstanding derivative financial instruments and recorded a gain of $8,451,000. These derivative financial instruments were not designated as hedges. For the six months ended June 30, 2012, the realized and unrealized loss on derivative financial instruments includes settlement payments of $8,837,000 partially offset by a $6,793,000 unrealized gain related to the change in the fair value of these derivatives prior to their termination in March 2012.



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**(6) 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) |
|---|---|
| As of December 31, 2012 | (12,243) |
| Unrealized gain on derivatives recognized through Accumulated other comprehensive income (loss) | 9,564 |
| Reclassifications of unrealized loss on derivatives into net income (a) | 2,366 |
| As of June 30, 2013 | (313) |

(a) Amounts reclassified into net income are included in Interest expense on the condensed consolidated statement of operations. See note 5, Derivatives, for further information.

**(7) Fair Value Measurements**

According to the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board Accounting Standards Codification, 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 June 30, 2013 and December 31, 2012 (amounts in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **June 30, 2013** | | | | |
| Derivative financial instruments - assets (a) | $ — | 2,587 | — | 2,587 |
| Derivative financial instruments - liabilities | — | (2,663) | — | (2,663) |
| Total | $ — | (76) | — | (76) |
| **December 31, 2012** | | | | |
| Derivative financial instruments - assets (a) | $ — | 116 | — | 116 |
| Derivative financial instruments - liabilities | — | (12,359) | — | (12,359) |
| Total | $ — | (12,243) | — | (12,243) |

(a) Included in Other assets, net on the condensed consolidated balance sheets

The Company has determined that the majority of the inputs used to value the Swaps fall within Level 2 of the fair value hierarchy. The credit valuation adjustments associated with the derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by their counterparties. As the counterparties have publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third-party credit data provider. However, as of June 30, 2013, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of the Swaps. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy.





The following table presents the activity in the Level 3 balances (amounts in thousands):

| | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|
| Beginning balance | $ — | (16,959) |
| Unrealized gain recognized | — | 16,959 |
| Ending balance | $ — | — |

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Long term debt, including current portion: | | |
| Carrying value | $ 1,126,106 | $ 1,108,383 |
| Fair value (a) | 1,144,140 | 1,130,978 |

(a) The fair value is based on valuations 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.

**(8) Commitments, Contingencies and Other Liabilities**

The Company is 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 is likely to have a material adverse impact on the Company's financial position or results of operations.

Based on events occurring in the State of Georgia in 2006, a monitoring service subscriber filed suit against the Company and Tel-Star Alarms, Inc., a Monitronics authorized dealer, alleging negligence. On November 16, 2011, a Georgia trial court awarded the plaintiff $8,600,000, of which $6,000,000 is expected to be covered by the Company's general liability insurance policies. In July 2013, the trial court's ruling was affirmed by the Georgia Court of Appeals. The Company intends to seek review of the Court of Appeals' ruling in Georgia's Supreme Court. As of June 30, 2013, the Company has recorded legal reserves of approximately $9,517,000 and an insurance receivable of approximately $6,877,000, related to this matter. In the fourth quarter of 2012, the Company funded approximately $2,640,000 into an escrow account for the excess liability above the insurance coverage, classified as restricted cash on the June 30, 2013 and December 31, 2012 condensed consolidated balance sheets. This amount will be released upon settlement of the appeal.

**(9) Subsequent Events**

On July 10, 2013, the Company entered into a securities purchase agreement with certain funds affiliated with Oak Hill Capital Partners, certain other holders and for the limited purposes set forth therein, Ascent Capital (the "Agreement"), pursuant to which the Company will directly and indirectly acquire all of the equity interests of Security Networks, LLC ("Security Networks") and certain affiliated entities (the "Security Networks Acquisition"). The estimated purchase price (the "Security Networks Purchase Price") will consist of $487,500,000 in cash plus 253,333 shares of Ascent Capital's Series A common stock with an agreed value of $20,000,000 (the "Ascent Shares") based on Security Networks delivering recurring monthly revenue (as defined in the Agreement) ("Acquisition RMR") of approximately $8,800,000 (including approximately $100,000 of wholesale monitoring revenue) as of the date of closing (the "Security Networks Closing Date"). In addition to other customary post-closing adjustments, the Security Networks Purchase Price will be adjusted based on the actual amount of Security Networks' Acquisition RMR delivered as of the Security Networks Closing Date. The cash portion of the





Security Networks Purchase Price will be funded by cash contributions from Ascent Capital and incremental borrowings. The incremental borrowings will consist of a $100,000,000 intercompany loan from Ascent Capital (the "Ascent Intercompany Loan"), $175,000,000 of 9.125% senior notes due 2020 issued by Monitronics Escrow Corporation (the "New Senior Notes") and an expected incremental term loan of $225,000,000 to be provided under the Company's Credit Facility (the "Incremental Term Loan"). As of June 30, 2013, the Company has incurred $1,438,000 of legal and professional services expense related to the Security Networks Acquisition, which are included in Selling, general, and administrative expense in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

Ascent Capital will fund the Ascent Intercompany Loan with proceeds from a $103,500,000 convertible senior notes offering (the "Convertible Notes"). The Convertible Notes offering was completed on July 17, 2013 with the notes maturing on July 15, 2020 and bearing interest at 4.00% per annum from July 17, 2013. Interest will be payable semi-annually on January 15 and July 15 of each year. Holders of the Convertible Notes ("Noteholders") shall have the right, at their option, to convert all or any portion of such Convertible Note, subject to the satisfaction of certain conditions, at an initial conversion rate of 9.7272 shares of Ascent Capital Series A common stock (the "Common Stock") per $1,000 principal amount of Convertible Notes (subject to adjustment in certain situations), which represents an initial conversion price of approximately $102.804. Ascent Capital is entitled to settle any such conversion by delivery of cash, shares of Common Stock or any combination thereof at Ascent Capital's election. In addition, Noteholders will have the right to submit Convertible Notes for conversion, subject to the satisfaction of certain conditions, in the event of certain corporate transactions.

We expect that the Ascent Intercompany Loan will be entered into upon the closing of the Security Networks Acquisition. The Ascent Intercompany Loan is expected to have an interest rate equal to 9.868% and to mature on October 1, 2020.

The New Senior Notes offering was completed on July 17, 2013 by Monitronics Escrow Corporation (the "Escrow Issuer"), a wholly-owned subsidiary of Ascent Capital. The proceeds from this offering have been placed in escrow and will be released upon the closing of the Security Networks Acquisition. In connection with the completion of the Security Networks Acquisition, the Escrow Issuer will be merged into the Company and the Company will assume the New Senior Notes. The New Senior Notes will mature on April 1, 2020 and bear interest at 9.125% per annum, with interest being payable semi-annually on April 1 and October 1 of each year. Following the completion of the Security Networks Acquisition, the New Senior Notes will be guaranteed by all of the Company's subsidiaries, including Security Networks and its subsidiaries. Ascent Capital will not be a guarantor of the New Senior Notes.

We expect that the Incremental Term Loan will be entered into upon the closing of the Security Networks Acquisition. We expect that the Incremental Term Loan will mature on March 23, 2018 and will bear interest based on LIBOR plus an applicable margin to be agreed, subject to LIBOR floor to be agreed. Quarterly required principal payments are expected to be approximately 0.25% of the principal balance.

The Agreement contains certain termination rights in the event that the Security Networks Acquisition is not consummated by September 30, 2013 (subject to extension in certain circumstances), including if the failure to complete the Security Networks Acquisition by such date is attributable to certain breaches by Ascent Capital or the Company, the Company may be required to pay the sellers a $45,000,000 termination fee. The Company currently expects to close the Security Networks Acquisition in mid-August 2013.





**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, the pending Security Networks Acquisition, the anticipated amendment of the Company's Credit Facility in connection with the Security Networks Acquisition, new service offerings, 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:

Factors relating to the Company and its consolidated subsidiaries, as a whole:

- 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 the Company's largest demographic;
- uncertainties in the development of our business strategies, including 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 telecommunications and cable companies;
- integration of acquired assets and businesses;
- the regulatory environment in which we operate, including the multiplicity of jurisdictions and licensing requirements to which the Company is subject and the risk of new regulations, such as the increasing adoption of false alarm ordinances;
- the availability and terms of capital, including the ability of the Company to obtain additional funds to grow its business and to complete the anticipated financing for the Security Networks Acquisition;
- the Company's high degree of leverage and the restrictive covenants governing its indebtedness;
- the outcome of any pending, threatened, or future litigation, including potential liability for failure to respond adequately to alarm activations;
- our 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;
- availability of qualified personnel;
- the Company's anticipated growth strategies;
- the Company's 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;
- the operating performance of the Company's network, including the potential for service disruptions due to acts of nature or technology deficiencies;
- changes in the nature of strategic relationships with original equipment manufacturers, dealers and other business partners;
- the reliability and creditworthiness of the Company's independent alarm systems dealers and subscribers;
- changes in the Company's expected rate of subscriber attrition;
- changes in technology that may make the Company's service less attractive or obsolete, or require significant expenditures to update, including the phase-out of 2G networks by cellular carriers;
- the development of new services or service innovations by competitors; and
- the trend away from the use of public switched telephone network lines and resultant increase in servicing costs associated with alternative methods of communication.

Factors relating to the Security Networks Acquisition:

- the ability to complete the Security Networks Acquisition by September 30, 2013 (subject to extension in certain circumstances), or at all;
- the ability to complete the expected incremental term loan; and
- the ability to successfully integrate Security Networks into the Monitronics business.

For additional risk factors, please see Part I, Item 1A, Risk Factors, in the 2012 Form 10-K. 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 2012 Form 10-K.

**Overview**

The Company provides security alarm monitoring and related services to residential and business subscribers throughout the United States and parts of Canada. The Company monitors signals arising from burglaries, fires, medical alerts and other events through security systems at subscribers' premises, as well as provides customer service and technical support. Nearly all of its revenues are derived from recurring monthly revenues under security alarm monitoring contracts purchased from independent dealers in its exclusive nationwide network.

*Recent Developments*

On July 10, 2013, the Company entered into a securities purchase agreement with certain funds affiliated with Oak Hill Capital Partners, certain other holders and for the limited purposes set forth therein, Ascent Capital (the "Agreement"), pursuant to which the Company will directly and indirectly acquire all of the equity interests of Security Networks, LLC ("Security Networks") and certain affiliated entities (the "Security Networks Acquisition"). The estimated purchase price (the "Security Networks Purchase Price") will consist of $487,500,000 in cash plus 253,333 shares of Ascent Capital's Series A common stock with an agreed value of $20,000,000 (the "Ascent Shares") based on Security Networks delivering recurring monthly revenue (as defined in the Agreement) ("Acquisition RMR") of approximately $8,800,000 (including approximately $100,000 of wholesale monitoring revenue) as of the date of closing (the "Security Networks Closing Date"). In addition to other customary post-closing adjustments, the Security Networks Purchase Price will be adjusted based on the actual amount of Security Networks' Acquisition RMR delivered as of the Security Networks Closing Date. The cash portion of the Security Networks Purchase Price will be funded by cash contributions from Ascent Capital and incremental borrowings. The incremental borrowings will consist of a $100,000,000 intercompany loan from Ascent Capital (the "Ascent Intercompany Loan"), $175,000,000 of 9.125% senior notes due 2020 issued by Monitronics Escrow Corporation (the "New Senior Notes") and an expected incremental term loan of $225,000,000 to be provided under the Company's Credit Facility (the "Incremental Term Loan"). As of June 30, 2013, the Company has incurred $1,438,000 of legal and professional services expense related to the Security Networks Acquisition, which are included in Selling, general, and administrative expense in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

The Agreement contains certain termination rights in the event that the Security Networks Acquisition is not consummated by September 30, 2013 (subject to extension in certain circumstances), including if the failure to complete the Security Networks Acquisition by such date is attributable to certain breaches by Ascent Capital or the Company, the Company may be required to pay the sellers a $45,000,000 termination fee. The Company currently expects to close the Security Networks Acquisition in mid-August 2013.

*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 terminate their contract for a variety of reasons, including relocation, cost and switching to a competitor's service. The largest category 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 (a "new owner takeover"), 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 the purchase price. To help ensure the dealer's obligation to the Company, the Company typically holds back a portion of the purchase price for every account purchased, ranging from 5-10%. In some cases, the amount of the purchase holdback may be less than actual attrition experience.





The table below presents subscriber data for the twelve months ended June 30, 2013 and 2012:

| | Twelve Months Ended June 30, | |
|---|---|---|
| | 2013 | 2012 |

| | | |
|---|---|---|
| Beginning balance of accounts | 711,832 | 688,119 |
| Accounts purchased (a) | 228,040 | 108,600 |
| Accounts canceled (b) | (98,107) | (81,747) |
| Canceled accounts guaranteed to be refunded from holdback | (3,042) | (3,140) |
| Ending balance of accounts | 838,723 | 711,832 |
| Monthly weighted average accounts | 787,735 | 701,515 |
| Attrition rate | (12.5)% | (11.7)% |

(a) During the three months ended June 30, 2013 and 2012, the Company purchased 47,733 and 26,358 subscriber accounts, respectively. During the six months ended June 30, 2013 and 2012, the Company purchased 76,193 and 50,532 subscriber accounts, respectively. The account purchases for the three and six months ended June 30, 2013 reflect bulk buys of approximately 18,200 accounts purchased in the second quarter of 2013.

(b) Net of canceled accounts that are contractually guaranteed to be refunded from holdback.

The attrition rate for the twelve months ended June 30, 2013 and 2012 was 12.5% and 11.7%, respectively. Increased attrition reflects the current age of accounts in the portfolio and an increase in disconnections due to household relocations.

The Company also analyzes its attrition by classifying accounts into annual pools based on the year of purchase. The Company then tracks 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 the pools, in recent years the Company has averaged less than 1% attrition 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. The peak following the end of the initial contract term is primarily a result of the buildup of subscribers that moved or no longer had need for the service but did not cancel their service until the end of their initial contract term. 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.

**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 and dealer network), realized and unrealized gain/(loss) on derivative instruments, restructuring charges, stock-based and other non-cash long-term incentive compensation, and other non-cash or nonrecurring charges. The Company believes that Adjusted EBITDA is an important indicator of the operational strength and performance of its 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 the Company's 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 ("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 the Company believes is useful to investors in analyzing its 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 the Company should not be compared to any similarly titled measures reported by other companies.



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**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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net revenue | $ 102,273 | 83,315 | $ 202,431 | 165,196 |
| Cost of services | 15,594 | 11,391 | 30,796 | 22,450 |
| Selling, general, and administrative | 18,113 | 14,653 | 34,016 | 29,004 |
| Amortization of subscriber accounts and dealer network | 45,998 | 39,349 | 90,313 | 77,430 |
| Interest expense | 19,466 | 19,347 | 40,593 | 30,969 |
| Realized and unrealized loss on derivative financial instruments | — | — | — | 2,044 |
| Income tax expense from continuing operations | 791 | 671 | 1,565 | 1,338 |
| Net income (loss) | 592 | (3,753) | 1,941 | (7,525) |
| | | | | |
| Adjusted EBITDA (a) | $ 70,408 | 57,218 | $ 139,822 | 113,703 |
| Adjusted EBITDA as a percentage of Revenue | 68.8% | 68.7% | 69.1% | 68.8% |

(a) See reconciliation to net income (loss) below.

*Net revenue.* Net revenue increased $18,958,000, or 22.8%, and $37,235,000, or 22.5%, for the three and six months ended June 30, 2013, respectively, as compared to the corresponding prior year periods. The increase in net revenue is attributable to the growth in the number of subscriber accounts and the related increase in recurring monthly revenue ("RMR"). The growth in subscriber accounts reflects the effects of purchases of approximately 110,000 accounts through the Company's authorized dealer program subsequent to June 30, 2012, the purchase of approximately 93,000 accounts in a bulk buy in October 2012 and other bulk buys of which approximately 18,200 accounts were purchased in the second quarter of 2013.

RMR increased from approximately $27,030,000 as of June 30, 2012 to approximately $33,533,000 as of June 30, 2013. RMR purchased during the three months ended June 30, 2013 and 2012 was approximately $2,090,000 and $1,165,000, respectively. RMR purchased during the six months ended June 30, 2013 and 2012 was approximately $3,367,000 and $2,214,000, respectively. In addition, average monthly revenue per subscriber increased from $37.97 as of June 30, 2012 to $39.98 as of June 30, 2013.

*Cost of services*. Cost of services increased $4,203,000, or 36.9%, and $8,346,000, or 37.2%, for the three and six months ended June 30, 2013, respectively, as compared to the corresponding prior year periods. The increase is primarily attributable to an increased number of accounts monitored across the cellular network and having interactive and home automation services, which result in higher operating and service costs. Cost of services as a percent of net revenue increased from 13.7% and 13.6% for the three and six months ended June 30, 2012, respectively, to 15.2% for both the three and six months ended June 30, 2013.

*Selling, general and administrative.* Selling, general and administrative costs ("SG&A") increased $3,460,000, or 23.6%, and $5,012,000, or 17.3% for the three and six months ended June 30, 2013, respectively, as compared to the corresponding prior year periods. The increase is primarily attributable to increased payroll expenses of approximately $616,000 and $1,571,000 for the three and six months ended June 30, 2013, respectively, as compared to the corresponding prior year periods and increases in professional services expenses primarily related to $1,438,000 of Security Networks Acquisition transaction costs incurred in the three and six months ended June 30, 2013. SG&A as a percent of net revenue increased from 17.6% for the three months ended June 30, 2012 to 17.7% for the three months ended June 30, 2013. SG&A as a percent of revenue decreased from 17.6% for the six months ended June 30, 2012 to 16.8% for the six months ended June 30, 2013.

*Amortization of subscriber accounts and dealer network.* Amortization of subscriber accounts and dealer network increased $6,649,000 and $12,883,000 for the three and six months ended June 30, 2013 as compared to the corresponding prior year periods. The increase is primarily attributable to amortization of subscriber accounts purchased subsequent to June 30, 2012.

*Interest Expense.* Interest expense increased $119,000 and $9,624,000 for the three and six months ended June 30, 2013 as compared to the corresponding prior year period. The increase in interest expense for the three months ended June 30, 2013 is





primarily attributable to the increase in term loan debt outstanding under the Company's Credit Facility offset by decreased interest rates on the outstanding term loan debt in conjunction with the March 25, 2013 repricing of the Credit Facility term loan.

The increase in interest expense for the six months ended June 30, 2013 is primarily due to the presentation of interest cost related to the Company's current derivative instruments. Interest cost related to the Company's current derivative instruments is presented in Interest expense on the statement of operations as the related derivative instrument is an effective cash flow hedge of the Company's interest rate risk for which hedge accounting is applied. As the Company did not apply hedge accounting on its prior derivative instruments, the related interest costs incurred prior to March 23, 2012 are presented in Realized and unrealized loss on derivative financial instruments in the condensed consolidated statements of operations and comprehensive income (loss). This increase was offset by decreased interest rates on the Credit Facility term loans, as noted above, and a decrease in amortization of debt discount, as the debt discount related to the securitized debt structure outstanding prior to the March 23, 2012 refinancing exceeded the debt discount on the Credit Facility. Amortization of debt discount for the six months ended June 30, 2013 and 2012 was $387,000 and $4,101,000, respectively.

*Realized and unrealized loss on derivative financial instruments.* There was no realized and unrealized gain or loss on derivative financial instruments for the three and six months ended June 30, 2013, as hedge accounting was applied on the Company's outstanding derivative instruments. Realized and unrealized loss on derivative financial instruments for the six months ended June 30, 2012 was $2,044,000, which includes settlement payments of $8,837,000 partially offset by a $6,793,000 unrealized gain related to the change in the fair value of the derivative financial instruments that were terminated on March 23, 2012.

*Income tax expense from continuing operations.* The Company had pre-tax income of $1,383,000 and $3,506,000 for the three and six months ended June 30, 2013, respectively, and income tax expense of $791,000 and $1,565,000 for the three and six months ended June 30, 2013, respectively. The Company had a pre-tax loss of $3,082,000 and $6,187,000 for the three and six months ended June 30, 2012, respectively, and income tax expense of $671,000 and $1,338,000 for the three and six months ended June 30, 2012, respectively. Income tax expense for all periods presented primarily relates to Texas state margin tax incurred on the Company's operations.

*Adjusted EBITDA.* The following table provides a reconciliation of total Adjusted EBITDA to net income (loss):

| | Three months ended June 30, 2013 | Three months ended June 30, 2012 | Six months ended June 30, 2013 | Six months ended June 30, 2012 |
|---|---|---|---|---|
| | (Amounts in thousands) | | | |
| Total Adjusted EBITDA | $ 70,408 | 57,218 | $ 139,822 | 113,703 |
| Amortization of subscriber accounts and dealer network | (45,998) | (39,349) | (90,313) | (77,430) |
| Depreciation | (1,721) | (1,320) | (3,209) | (2,622) |
| Stock-based and long-term incentive compensation | (402) | (280) | (763) | (580) |
| Acquisition related costs | (1,438) | — | (1,438) | — |
| Realized and unrealized loss on derivative instruments | — | — | — | (2,044) |
| Refinancing costs | — | (4) | — | (6,245) |
| Interest expense | (19,466) | (19,347) | (40,593) | (30,969) |
| Income tax expense from continuing operations | (791) | (671) | (1,565) | (1,338) |
| Net income (loss) from continuing operations | $ 592 | (3,753) | $ 1,941 | (7,525) |

Adjusted EBITDA increased $13,190,000, or 23.1%, and $26,119,000, or 23.0%, for the three and six months ended June 30, 2013 as compared to the respective prior year period. The increase in Adjusted EBITDA was primarily due to revenue growth.

**Liquidity and Capital Resources**

At June 30, 2013, we had $1,537,000 of cash and cash equivalents and $2,640,000 of current restricted cash on a consolidated basis. Our primary source of funds is our cash flows from operating activities which are generated from alarm monitoring and related service revenues. During the six months ended June 30, 2013 and 2012, our cash flow from operating activities was $100,714,000 and $84,910,000, respectively. The primary driver of our cash flow from operating activities is Adjusted EBITDA. Fluctuations in our





Adjusted EBITDA and the components of that measure are 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 six months ended June 30, 2013 and 2012, the Company used cash of $113,199,000 and $78,885,000, respectively, to fund purchases of subscriber accounts net of holdback and guarantee obligations. In addition, during the six months ended June 30, 2013 and 2012, the Company used cash of $3,978,000 and $2,479,000, respectively, to fund our capital expenditures.

In considering our liquidity requirements for 2013, we evaluated our known future commitments and obligations. We will require the availability of funds to finance our strategy, which is to grow through subscriber account purchases. In addition, we considered the borrowing capacity under our Credit Facility revolver, under which we could borrow an additional $116,400,000 as of June 30, 2013. Based on this analysis, we expect that cash on hand, cash flow generated from operations and available borrowings under our Credit Facility will provide sufficient liquidity to fund our anticipated current requirements.

On March 25, 2013, Monitronics entered into a second amendment to the Credit Facility which repriced the interest rates applicable to the Credit Facility term loans and revolving credit facility. Concurrently with the Repricing, Monitronics extended the maturity of the revolving credit facility by nine months to December 22, 2017.

The existing long-term debt of Monitronics at June 30, 2013 includes the principal balance of $1,130,648,000 under its Senior Notes, Credit Facility, and Credit Facility revolver. The Senior Notes have an outstanding principal balance of $410,000,000 as of June 30, 2013 and mature on April 1, 2020. The Credit Facility term loan has an outstanding principal balance of $687,049,000 as of June 30, 2013 and requires principal payments of approximately $1,726,000 per quarter with the remaining outstanding balance becoming due on March 23, 2018. The Credit Facility revolver has an outstanding balance of $33,600,000 as of June 30, 2013 and becomes due on December 22, 2017.

In considering our liquidity requirements, we also have evaluated our expected commitments and obligations in connection with the Security Networks Acquisition. The cash portion of the Security Networks Purchase Price will be funded by cash contributions from Ascent Capital and new debt, which is to consist of the $100,000,000 Ascent Intercompany Loan, the $175,000,000 New Senior Notes and the expected Incremental Term Loan of $225,000,000 to be provided under the Company's Credit Facility.

We expect that the Ascent Intercompany Loan will be entered into upon the closing of the Security Networks Acquisition. The Ascent Intercompany Loan is expected to have an interest rate equal to 9.868% and to mature on October 1, 2020. The New Senior Notes offering was completed on July 17, 2013 by Monitronics Escrow Corporation (the "Escrow Issuer"), a wholly-owned subsidiary of Ascent Capital. The proceeds from this offering have been placed in escrow and will be released upon the closing of the Security Networks Acquisition. In connection with the completion of the Security Networks Acquisition, the Escrow Issuer will be merged into the Company and the Company will assume the New Senior Notes. The New Senior Notes will mature on April 1, 2020 and bear interest at 9.125% per annum, with interest being payable semi-annually on April 1 and October 1 of each year. We expect that the Incremental Term Loan will be entered into upon the closing of the Security Networks Acquisition. We expect that the Incremental Term Loan will mature on March 23, 2018 and will bear interest based on LIBOR plus an applicable margin to be agreed, subject to LIBOR floor to be agreed.

In addition, we have evaluated our borrowing capacity subsequent to the Security Networks Acquisition, upon which we expect to increase the borrowing available under the Company's Credit Facility revolver by an amount equal to $75,000,000 (except that no amounts are expected to be drawn to finance the Security Networks Acquisition). Based on our analysis, we expect that cash on hand, cash flow generated from operations and available borrowings under the amended revolving credit facility will provide sufficient liquidity to fund our anticipated requirements following the Security Networks Acquisition.

We may seek capital contributions from Ascent Capital or external debt financing in the event of any new investment opportunities, additional capital expenditures or if our operations require 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. 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.



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

***Interest Rate Risk***

Due to the terms of our debt obligations, we have exposure to changes in interest rates related to these 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 fair value and by maturity date. Debt amounts represent principal payments by maturity date.

| Year of Maturity | Fixed Rate Derivative Instruments, net (a) | Variable Rate Debt (a) | Fixed Rate Debt | Total |
|---|---|---|---|---|
| | Amounts in thousands | | | |
| 2013 | $ — | 3,452 | — | 3,452 |
| 2014 | — | 6,905 | — | 6,905 |
| 2015 | — | 6,905 | — | 6,905 |
| 2016 | — | 6,905 | — | 6,905 |
| 2017 | — | 40,505 | — | 40,505 |
| Thereafter | 76 | 655,976 | 410,000 | 1,066,052 |
| Total | $ 76 | 720,648 | 410,000 | 1,130,724 |

(a) The derivative financial instruments include the net effect of two interest rate swaps, both with a maturity date of March 23, 2018. As a result of these interest rate swaps, the interest rate on the borrowings under the Credit Facility term loans reflected in the variable rate debt column have been effectively converted from a variable rate to a weighted average fixed rate of 5.03%. See notes 4, 5 and 7 to our 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 June 30, 2013 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 SEC'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 June 30, 2013 that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.





MONITRONICS INTERNATIONAL, INC. AND SUBSIDIARIES

**PART II - OTHER INFORMATION**

**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):

| | |
|---|---|
| 2.1 | Securities Purchase Agreement, dated as of July 10, 2013, by and among Monitronics International, Inc., certain funds affiliated with Oak Hill Partners, certain other holders and, for the limited purposes set forth therein, Ascent Capital Group, Inc. ("Ascent") (incorporated by reference to Exhibit 2.1 to Amendment No. 2 to Ascent's Current Report on Form 8-K/A, filed with the Securities and Exchange Commission (the "SEC") on July 12, 2013 (File No. 001-34176)). |
| 4.1 | Indenture, dated as of July 17, 2013, by and among Monitronics Escrow Corporation, as issuer, and U.S. Bank, as trustee (incorporated by reference to Exhibit 4.2 to Ascent's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013, filed with the SEC on August 9, 2013 (File No. 001-34176)). |
| 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: August 14, 2013 By: /s/ Michael R. Haislip
Michael R. Haislip
President and Chief Executive Officer

Date: August 14, 2013 By: /s/ Michael R. Meyers
Michael R. Meyers
Chief Financial Officer, Vice President and Assistant Secretary
(Principal Accounting Officer)





EXHIBIT INDEX

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):

| | |
|---|---|
| 2.1 | Securities Purchase Agreement, dated as of July 10, 2013, by and among Monitronics International, Inc., certain funds affiliated with Oak Hill Partners, certain other holders and, for the limited purposes set forth therein, Ascent Capital Group, Inc. ("Ascent") (incorporated by reference to Exhibit 2.1 to Amendment No. 2 to Ascent's Current Report on Form 8-K/A, filed with the Securities and Exchange Commission (the "SEC") on July 12, 2013 (File No. 001-34176)). |
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| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. ** |

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* Filed herewith.

** Furnished herewith.

**Exhibit 31.1**

**CERTIFICATION**

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 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: August 14, 2013

/s/ Michael R. Haislip

Michael R. Haislip
President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

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 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: August 14, 2013

/s/ Michael R. Meyers
Michael R. Meyers
Chief Financial Officer, Vice President and Assistant Secretary

**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 ended June 30, 2013 (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 June 30, 2013 and December 31, 2012 and for the three and six months ended June 30, 2013 and 2012.

Dated: August 14, 2013

/s/ Michael R. Haislip
Michael R. Haislip
President and Chief Executive Officer

Dated: August 14, 2013

/s/ Michael R. Meyers
Michael R. Meyers
Chief Financial Officer, Vice President and Assistant Secretary
(Principal 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.