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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2005

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
(State or other jurisdiction of
incorporation or organization)

74-2719343
(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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 October 31, 2005
Class A Common Stock, par value \$.01 per share	31,090,317
Class B Common Stock, par value \$.01 per share	None

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Item 1. Financial Statements**MONITRONICS INTERNATIONAL, INC.**
BALANCE SHEETS

(In thousands, except share data)

	September 30, 2005	June 30, 2005
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,145	\$ 190
Accounts receivable, net	6,967	6,392
Federal income tax receivable	8,343	8,427
Prepaid expenses and other current assets	1,117	1,124
Total current assets	17,572	16,133
Property and equipment, net	8,092	7,215
Subscriber accounts, net of accumulated amortization of \$381,166 as of September 30, 2005 and \$361,727 as of June 30, 2005	485,751	471,212
Deferred financing costs, net	11,724	12,418
Goodwill	14,795	14,795
Total assets	\$ 537,934	\$521,773
Liabilities and Shareholders' Net Capital		
Current liabilities:		
Accounts payable	\$ 2,722	\$ 2,554
Accrued expenses	2,746	2,413
Purchase holdbacks	8,045	7,855
Deferred revenue	5,270	5,865
Interest payable	2,797	7,370
Taxes payable	57	33
Current portion of long-term debt	1,805	1,804
Total current liabilities	23,442	27,894
Long-term debt, less current portion	448,631	425,809
Redeemable preferred stock, net	13,342	13,342
Commitments and contingencies		
Shareholders' net capital:		
Class A common stock, \$.01 par value:		
Authorized shares – 80,000,000		
Issued and outstanding shares – 31,090,317 shares as of September 30, 2005 and 31,090,317 shares as of June 30, 2005	311	311
Class B common stock, \$.01 par value:		
Authorized shares – 700,000		
Issued and outstanding shares – none	—	—
Additional paid-in capital	156,677	156,677
Treasury stock, at cost, 843,194 shares as of September 30, 2005 and 843,194 shares as of June 30, 2005	(8,913)	(8,913)
Accumulated deficit	(95,556)	(93,347)
Total shareholders' net capital	52,519	54,728
Total liabilities and shareholders' net capital	\$ 537,934	\$521,773

See accompanying notes.

MONITRONICS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,	
	2005	2004
	(In thousands)	
Revenue	\$45,072	\$40,546
Cost of services	5,508	4,806
Gross profit	39,564	35,740
Operating expenses:		
Sales, general and administrative	8,741	7,560
Depreciation	617	507
Amortization	21,483	18,841
	30,841	26,908
Operating income	8,723	8,832
Other expense:		
Interest expense	10,919	9,832
	10,919	9,832
Loss before income taxes	(2,196)	(1,000)
Provision (benefit) from income taxes	13	(185)
Net loss	\$ (2,209)	\$ (815)
Preferred dividends accrued	—	(878)
Accretion of redeemable convertible preferred stock redemption value	—	(18)
Net loss attributed to common stock shareholders	\$ (2,209)	\$ (1,711)

See accompanying notes.

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

	Three Months Ended September 30,	
	2005	2004
	(In thousands)	
Operating Activities		
Net loss	\$ (2,209)	\$ (815)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	22,100	19,348
Amortization of deferred financing costs	694	655
Deferred income taxes	—	(504)
Provision for bad debt	925	765
Non-cash interest accretion	27	24
Non-cash expense related to put option	84	470
Changes in current assets and liabilities:		
Accounts receivable (excluding provision for bad debt)	(1,500)	(1,356)
Prepaid expenses and other current assets	7	(262)
Accounts payable	168	(326)
Accrued expenses	333	(241)
Accrued interest	(4,575)	(4,389)
Deferred revenue	(595)	111
Income taxes payable and receivable	108	355
	<u>15,567</u>	<u>13,835</u>
Net cash provided by operating activities	15,567	13,835
Investing Activities		
Purchases of property and equipment	(1,532)	(872)
Sale of land	40	—
Purchases of subscriber accounts (net of holdbacks)	(35,832)	(33,844)
	<u>(37,324)</u>	<u>(34,716)</u>
Net cash used in investing activities	(37,324)	(34,716)
Financing Activities		
Payment of deferred financing and issuance costs	—	(832)
Proceeds from credit facility	36,450	36,050
Payments of credit facility	(13,738)	(8,738)
Redemption of preferred stock	—	(5,610)
	<u>22,712</u>	<u>20,870</u>
Net cash provided by financing activities	22,712	20,870
Increase (decrease) in cash and cash equivalents	955	(11)
Cash and cash equivalents at beginning of period	190	1,645
	<u>\$ 1,145</u>	<u>\$ 1,634</u>
Cash and cash equivalents at end of period	\$ 1,145	\$ 1,634
Significant cash transactions during the period for:		
Interest paid	\$ 14,669	\$ 13,292
Non-cash investing and financing activities:		
Recapitalization:		
Issuance of common stock	\$ —	\$ 158,090
Issuance of new Series A preferred stock	\$ —	\$ 13,342
Retirement of Series A, B, C, C-1 and D-1 preferred stock	\$ —	\$(171,432)
Accrued preferred stock dividends	\$ —	\$ 878

See accompanying notes.

Monitronics International, Inc.
Notes to Financial Statements
(Unaudited)

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Monitronics International, Inc. (the “Company”) provides security alarm monitoring and related services to residential and business subscribers throughout the United States. 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.

Stock Compensation

The Company accounts for stock-based employee compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB 25”) and related interpretations, and complies with the disclosure provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (“SFAS 123”). Under APB 25, compensation cost is recognized over the vesting period based on the difference, if any, on the date of grant between the fair market value of the Company’s common stock and the exercise price of the stock option granted. Generally, the Company grants options with an exercise price at least equal to or above the fair market value of the Company’s common stock on the date of the grant and, as a result, generally does not record compensation cost.

The following table illustrates the effect of net loss if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands):

	Three Months Ended September 30,	
	2005	2004
Net loss as reported	\$ (2,209)	\$ (815)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net value of related tax effects	(28)	—
Pro forma net loss	\$ (2,237)	\$ (815)

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Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 123 (revised 2004), *Share-Based Payment* (“SFAS 123(R)”), which is a revision of SFAS 123. SFAS 123(R) supercedes APB 25, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. SFAS 123(R) is effective no later than the beginning of the first fiscal year beginning after December 15, 2005. The Company will to adopt SFAS 123(R) on or before July 1, 2006. The adoption of SFAS 123(R)’s fair value method may have a significant impact on the Company’s results of operations, although it will have no impact on the Company’s overall financial position. The Company will implement SFAS 123(R) using the “prospective” method.

2. Long-Term Debt

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

	September 30, 2005	June 30, 2005
Revolving credit line and term loan payable	\$ 269,400	\$246,687
Senior subordinated notes payable	160,000	160,000
Subordinated notes payable	21,470	21,470
Investor put option (see Note 3 (Related Party Transactions))	303	220
	<u>451,173</u>	<u>428,377</u>
Less: discount	737	764
Less: current portion	1,805	1,804
	<u>\$ 448,631</u>	<u>\$425,809</u>

On August 25, 2003, the Company entered into its existing 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 September 30, 2005, the Company had \$97.9 million in borrowings outstanding under the \$145 million revolving credit line and had \$171.5 million in borrowings outstanding under the term loan. Further, the Company had \$47.1 million in availability under the revolving credit line of which \$23.9 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 three months ended September 30, 2005, borrowings under the credit facility had a weighted average interest rate of 7.2%. Interest incurred on borrowings is payable monthly in arrears.

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

On August 25, 2003, the Company also issued \$160.0 million of senior subordinated notes (the “Senior Subordinated Notes”) at a discount of \$0.94 million. The Senior Subordinated Notes accrue interest at 11.75% per annum and mature on 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, the Company completed an exchange offer in which it exchanged new notes that were registered under the Securities Act of 1933 for the Senior Subordinated Notes. In accordance with the registration rights agreement associated with these notes,

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the Company incurred special interest on the Senior Subordinated Notes in the amount of \$470,000 in connection with the exchange offer.

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 September 30, 2005, 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 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. On November 22, 2004, the first of five option exercises was completed when the Partnership sold the Company \$500,000 worth of Class A common stock. The fair value of the remaining investor put option was \$0.3 million at September 30, 2005. See Note 3 (Related Party Transactions) to these financial statements.

Scheduled maturities (as defined) of long-term debt at September 30, 2005, 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):

2006	\$ 1,368
2007	7,083
2008	18,020
2009	118,982
2010	145,720
Thereafter	160,000
	<u>\$451,173</u>

3. Related Party Transactions

Concurrently with the Senior Subordinated Notes offering, the Company entered into an agreement with James R. Hull, the Company's 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. Based on the fair value of the Company's stock at the time of the agreement, the Company recorded no liability in connection with this agreement. The written investor put option was amended on September 23, 2004, resulting in the Company recording a liability and related sales, general and administrative ("SG&A") expense of \$0.5 million based on the fair value of the written put option at September 30, 2004. On November 22, 2004, the Partnership exercised the first of five option exercises and sold the Company 57,549 shares of Class A common stock for \$500,000. As of September 30, 2005, the outstanding liability for the

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put option was \$0.3 million. The Company will prospectively 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 (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.

4. Commitments and Contingencies

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

5. Subsequent Event

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 Series A preferred stock began accruing dividends on November 4, 2005 at a rate of 8% per annum, and the dividend rate will increase at a rate of 2% per annum on each subsequent November 4 up to a rate of 16% per annum. The dividend rate will also increase to a maximum of 24% per annum following any covenant or leverage defaults until the noncompliance is cured.

As a result of the dividend election, the Company must redeem the Series A preferred stock on June 30, 2008 at a price equal to the liquidation value (calculated as provided in its articles of incorporation) plus any accrued and unpaid dividends. If the Company does not redeem the Series A preferred stock on June 30, 2008, the maximum dividend rate will increase from 16% to the lesser of 24% and the maximum rate permitted by law. If the Company is unable to redeem the Series A preferred stock on or prior to June 30, 2009 for any reason, including due to the prohibitions or restrictions contained in its existing debt instruments or articles of incorporation, the holders of the Series A preferred stock may initiate the Company’s sale or liquidation.

Following the dividend election, the Series A preferred stock is no longer convertible into Class A common stock, and the shares of Series A preferred stock no longer have voting rights except with respect to limited matters provided in the Company’s articles of incorporation or otherwise required by law.

The Company will reflect the effect of the dividend election in the second quarter of fiscal 2006 by adjusting the Series A preferred stock to its liquidation value of approximately \$45 million through a reduction to the Company’s additional paid-in capital.

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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.

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; 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 II—Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 23, 2005. 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 during which the subscriber may cancel the contract upon 30 days’ proper written notice.

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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 during which the subscriber may cancel the contract upon 30 days' proper written notice. 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, cost, switching to our competitors' service and service issues. A majority of canceled accounts result from subscriber relocation or the inability to contact the subscriber.

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 with the terms of the contract or if payment from the subscriber is deemed uncollectible. If a subscriber relocates but continues his service, this is not a cancellation. If the subscriber relocates and discontinues his service and a new subscriber takes over the service continuing the revenue stream, this is a cancellation and a new owner takeover. We 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 by the dealers at no additional cost to us.

The table below presents subscriber data for the twelve months ended September 30, 2005 and 2004:

	Twelve Months Ended September 30,	
	2005	2004
Beginning balance of accounts	451,462	413,449
Accounts purchased	97,315	90,162
Accounts canceled ⁽¹⁾	(60,551)	(49,662)
Accounts guaranteed to be refunded from holdback	(1,367)	(2,487)
Ending balance of accounts	486,859	451,462
Attrition rate	12.9%	11.5%

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

Our trailing twelve-month attrition rose to 12.9% for the period ended September 30, 2005 from 11.5% for the period ended September 30, 2004. This increase primarily reflects a slight change in policy we adopted in June 2004 to permit subscribers in their annual renewal period to cancel with proper 30-days written notice. This change resulted in the cancellation of a small number of accounts ahead of schedule. The increased attrition rate has already started to subside and management anticipates the effect of the change in policy should essentially no longer impact the trailing 12-month attrition rate by the end of the third quarter of fiscal year 2006. This change in policy was made as a result of our comparing the small amount of revenue lost to the level of customer dissatisfaction created when a one-year renewal

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is enforced and deciding that customer satisfaction is the much greater influence on the level of our future business. The primary three-year term of the contract remains non-cancelable.

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 the 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 between the third and fourth years. The peak between the third and fourth years 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. Our pool analysis also indicates that, on average, over 30% of each pool remains by the end of the tenth year.

Results of Operations

Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004

Revenues. Total revenues were \$45.1 million in the three months ended September 30, 2005 compared to \$40.5 million in the three months ended September 30, 2004, which was an increase of \$4.6 million, or 11%. This increase was primarily attributable to an increase in the number of subscriber accounts to 486,859 as of September 30, 2005 from 451,462 as of September 30, 2004 and a small net increase in average revenue per customer.

Cost of services. Cost of services were \$5.5 million for the three months ended September 30, 2005 compared to \$4.8 million for the three months ended September 30, 2004, which was an increase of \$0.7 million, or 15%. As a percentage of revenues, cost of services was 12% for both the three months ended September 30, 2005 and September 30, 2004.

Sales, general and administrative (SG&A). SG&A was \$8.7 million for the three months ended September 30, 2005 compared to \$7.6 million for the three months ended September 30, 2004, which was an increase of \$1.1 million, or 14%. As a percentage of revenues, SG&A was 19% for both the three months ended September 30, 2005 and September 30, 2004.

Amortization. Amortization of intangibles was \$21.5 million in the three months ended September 30, 2005 compared to \$18.9 million in the three months ended September 30, 2004 which was an increase of \$2.6 million, or 14%. The increase was attributable to growth in our purchased subscriber accounts through our authorized dealer program.

Interest expense. Interest expense was \$10.9 million in the three months ended September 30, 2005 compared to \$9.8 million in the three months ended September 30, 2004, which was an increase of \$1.1 million, or 11%. The increase resulted from higher borrowing under our revolving line of credit throughout the quarter incurred to fund our purchase of subscriber accounts and increases in variable interest rates. Our average interest rate decreased to 9.9% in the three months ended September 30, 2005 from 10.0% in the three months ended September 30, 2004.

Net loss. Net loss was \$2.2 million in the three months ended September 30, 2005 compared to net loss of \$0.8 million in the three months ended September 30, 2004 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 and accrued interest payable. 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

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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 September 30, 2005 and June 30, 2005, we had working capital deficits of \$5.9 million and \$11.8 million, respectively. The \$5.9 million improvement in our working capital was primarily due to a \$4.6 million reduction in interest payable which decreased to \$2.8 million as of September 30, 2005 compared to \$7.4 million as of June 30, 2005. The decrease in interest payable was primarily due to the semi-annual payment, on September 1, 2005, of interest related to our \$160 million of senior subordinated notes.

Net cash provided by operating activities for the three months ended September 30, 2005 was \$15.6 million, as compared to \$13.8 million for the three months ended September 30, 2004. The increase in cash provided by operating activities for the three months ended September 30, 2005 was primarily due to growth in our subscriber base and the resulting increases in revenues.

Net cash used in investing activities for the three months ended September 30, 2005 was \$37.3 million, compared to \$34.7 million for the three months ended September 30, 2004. For the three months ended September 30, 2005, capital expenditures were \$1.5 million versus \$0.9 million for the three months ended September 30, 2004. Capital expenditures were primarily for our central monitoring station, telephone systems, computer systems and leasehold improvements for our offices. 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 purchase 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.

Our net cash provided by financing activities for the three months ended September 30, 2005 was \$22.7 million, as compared to \$20.9 million for the three months ended September 30, 2004.

As of September 30, 2005, we had \$269.4 million outstanding under our credit facility, bearing interest at a weighted average rate for the three months ended September 30, 2005 of approximately 7.2% per annum, and we had approximately \$47.1 million in borrowing availability under our revolving credit line, of which \$23.9 million was immediately available as calculated under the covenants in our credit facility. In addition, we had \$181.5 million in principal amount outstanding of senior subordinated and subordinated notes as of September 30, 2005.

On March 28, 2005, we amended certain provisions of our credit facility 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 July 14, 2004, we completed a recapitalization in which we redeemed approximately \$5.6 million of the Series C and Series C-1 preferred stock held by the Windward entities and then issued shares of a new Series A preferred stock or Class A common stock to our preferred shareholders in exchange for all their shares of preferred stock, Class A common stock and warrants to purchase Class A common stock. The Windward entities subsequently sold the shares of Class A common stock they received in the exchange to two new investors at \$6.00 per share. We financed the total \$6.8 million cost of the recapitalization, including the \$5.6 million redemption payment and approximately \$1.2 million of fees and expenses, with borrowings under our senior credit facility.

Prior to the recapitalization, we were obligated to accrue cumulative dividends on each series of our previously outstanding preferred stock at varying rates, but we were prohibited from paying these dividends under the terms of our credit facility and the indenture governing the senior subordinated notes if an event of default existed or would result from such payment. The recapitalization allowed us to restructure our accrued dividends by converting the accrued dividends into common and preferred stock. Our new Series A preferred stock issued in the recapitalization is not currently accruing dividends, and payment of any dividends after a dividend election will continue to be prohibited under the terms of our credit facility and the indenture if an event of default exists or would result from such payment. Accordingly, we do not expect to pay any dividends.

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

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exchanged new notes that were registered under the Securities Act of 1933 for the senior subordinated notes. In accordance with the registration rights agreement associated with these notes, we incurred special interest on the senior subordinated notes in the amount of \$470,000 in connection with the exchange offer.

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 as low as possible 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 September 30, 2005, 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.

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

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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 reviewed 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 deferred tax asset as a result of experiencing a cumulative loss before income taxes for the three-year period ended June 30, 2005. 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 September 30, 2005, we had goodwill of \$14.8 million, which represents 2.8% 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

On December 16, 2004, the Financial Accounting Standards Board "FASB" issued FASB Statement No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)"), which is a revision of SFAS 123. SFAS 123(R) supercedes APB 25, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. SFAS 123(R) is effective no later than the beginning of the first fiscal year beginning after December 15, 2005. We will adopt SFAS 123(R) on or before July 1, 2006. The adoption of SFAS 123(R)'s fair value method may have a significant impact on our result of operations, although it will have no impact on our overall financial position. We will implement SFAS 123(R) using the "prospective" method.

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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 September 30, 2005, we had \$269.4 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 are required to utilize interest rate caps as required by our credit facility if our ratio of fixed interest debt to total debt should fall below 25%. As of September 30, 2005, we were in compliance with this ratio. A hypothetical 10% increase in our credit facility's weighted average interest rate of 7.2% per annum for the three months ended September 30, 2005 would correspondingly decrease our earnings and operating cash flows by approximately \$0.5 million.

Our privately issued \$21.5 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 \$183.3 million (book of \$181.5 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

The Company is subject to various legal proceedings and claims that arise 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 financial position or results of operations of the Company.

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

On September 15, 2005, we granted to employees options to purchase 85,800 shares of our Class A common stock under our 2005 Stock Option Plan at an exercise price of \$6.00 per share and options to purchase 15,500

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shares of our Class A common stock under our 2001 Stock Option Plan at an exercise price of \$6.00 per share. These transactions were exempt from the registration requirements of the Securities Act by virtue of Rule 701 because they were issued in compensatory circumstances to employees in compliance with that Rule.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

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. As a result of the dividend election, the Series A preferred stock began accruing dividends on November 4, 2005 at a rate of 8% per annum, and the dividend rate will increase at a rate of 2% per annum on each subsequent November 4 up to a rate of 16% per annum. The dividend rate will also increase to a maximum of 24% per annum following any covenant or leverage defaults until the noncompliance is cured.

As a result of the dividend election, we must redeem the Series A preferred stock on June 30, 2008 at a price equal to the liquidation value (calculated as provided in our articles of incorporation) plus any accrued and unpaid dividends. If we do not redeem the Series A preferred stock on June 30, 2008, the maximum dividend rate will increase from 16% to the lesser of 24% and the maximum rate permitted by law. If we are unable to redeem the Series A preferred stock on or prior to June 30, 2009 for any reason, including due to the prohibitions or restrictions contained in our existing debt instruments or articles of incorporation, the holders of the Series A preferred stock may initiate our sale or liquidation.

Following the dividend election, the Series A preferred stock is no longer convertible into Class A common stock, and the shares of Series A preferred stock no longer have voting rights except with respect to limited matters provided in our articles of incorporation or otherwise required by law.

We will reflect the effect of the dividend election in the second quarter of fiscal 2006 by adjusting the Series A preferred stock to its liquidation value of approximately \$45 million through a reduction to our additional paid-in capital.

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. 333-110025) and incorporated herein by reference)
- 10.1* Restricted Stock Ownership Agreement, dated April 19, 2002, by and between Monitronics International, Inc. and James R. Hull

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10.2*	Restricted Stock Ownership Agreement, dated April 19, 2002, by and between Monitronics International, Inc. and Michael Meyers
10.3*	Restricted Stock Ownership Agreement, dated April 19, 2002, by and between Monitronics International, Inc. and Michael Gregory
10.4*	Restricted Stock Ownership Agreement, dated April 19, 2002, by and between Monitronics International, Inc. and Robert Sherman
10.5*	Restricted Stock Ownership Agreement, dated April 19, 2002, by and between Monitronics International, Inc. and Ricky L. Hudson
10.6*	Restricted Stock Ownership Agreement, dated April 19, 2002, by and between Monitronics International, Inc. and Stephen Hedrick
10.7*	Restricted Stock Ownership Agreement, dated April 19, 2002, by and between Monitronics International, Inc. and Barry Johnson
10.8*	Correction to First Amendment to Lease Agreement, dated January 14, 2005, by and between Monitronics International, Inc. and AGF Valley View, Ltd.
10.9*	Fourth Amendment to Lease Agreement, dated September 6, 2005, by and between Monitronics International, Inc. and MRP/VV, L.P.
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

* Filed herewith.

** Furnished herewith.

RESTRICTED STOCK OWNERSHIP AGREEMENT

This **RESTRICTED STOCK OWNERSHIP AGREEMENT** (the "Agreement") is made as of April 19, 2002, by and between Monitronics International, Inc., a Texas corporation (the "Company"), and James R. Hull, an employee of the Company (the "Employee").

WHEREAS, pursuant to this Agreement, the Company desires to transfer to the Employee 291,998 shares (the "Shares") of the Company's Class A Common Stock, \$0.01 par value, per share (the "Common Stock") which shares shall be subject to certain restrictions as set forth herein and shall be herein referred to as the "Restricted Shares"; and

WHEREAS, Company and Employee desire to enter into this Agreement to provide for restrictions on transfer and forfeiture of the Restricted Shares prior to the vesting of such Restricted Shares and removal of such forfeiture restrictions upon vesting of the Restricted Shares.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements set forth herein, together with other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Purchase of Restricted Shares.** Concurrently with execution of this Agreement, Employee has purchased the Restricted Shares and paid the purchase price of \$0.01 per share (the "Purchase Price"). Concurrently with execution of this Agreement and payment of the Purchase Price, Employee shall also execute and deliver to Company an executed blank Stock Power of Attorney in the form attached hereto as Exhibit "A" with respect to the Restricted Shares.

2. Repurchase Right

2.1 Grant. Employee hereby grants to Company the right (the "Repurchase Right") exercisable at any time during the 180-day period following the date Employee's employment by Company is terminated for any reason, to repurchase at the Purchase Price all or any portion of the Restricted Shares in which Employee is not, at the time of his or her termination of employment, vested in accordance with the Vesting Schedule described in Section 2.3 and set forth in the form attached hereto as Exhibit "B" (such shares to be hereinafter referred to as the "Unvested Shares").

2.2 Exercise of the Repurchase Right. The Repurchase Right shall be exercisable by written notice delivered to Employee prior to the expiration of the 180-day exercise period. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than 30 days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to Company prior to the close of business on the date specified for the repurchase. Concurrently with the receipt of such stock certificates, Company shall pay to Employee, in cash or cash equivalents (including the cancellation of any purchase-money indebtedness), an amount equal to the Purchase Price previously paid for the Unvested Shares which are to be repurchased from Employee.

2.3 Termination of the Repurchase Right. The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Section 2.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to any and all Unvested Shares in which Participant vests in accordance with the Vesting Schedule set forth in Exhibit B.

Notwithstanding the foregoing, the Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right upon a “Change of Control.”

2.4 Recapitalization. Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any “Recapitalization” distributed with respect to the Unvested Shares shall be immediately subject to the Repurchase Right, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of Unvested Shares subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same. For purposes of this Agreement, a “Recapitalization” shall mean any stock split, stock dividend, recapitalization, reorganization, combination of shares, exchange of shares, or other change affecting the outstanding Common Stock as a class without the Company’s receipt of consideration.

2.5 Corporate Transaction.

(a) The Repurchase Right shall be assignable by Company to any successor entity of Company in a merger or consolidation, share exchange, or sale, transfer or other disposition of all or substantially all of the Company’s assets in complete liquidation or dissolution of the Company; subject, however, to termination on the Repurchase Right in accordance with Section 2.3 if a Change of Control has occurred as a result thereof. However, to the extent the successor entity does not accept such assignment, the Repurchase Right shall lapse immediately prior to the consummation of the transaction with such successor entity.

(b) To the extent the Repurchase Right remains in effect following any such transaction, such right shall apply to the new capital stock or other property (including any cash payments) received in exchange for the Unvested Shares in consummation of such transaction, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments shall be made to the price per share payable upon exercise of the Repurchase Right to reflect the effect of such transaction upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same.

3. Delivery of Certificates. The certificates representing any Restricted Shares which are subject to the Repurchase Right shall be held in escrow in accordance with the provisions of this Agreement.

4. Shareholder Rights. Until such time as the Company exercises the Repurchase Right, Employee (or any permitted successor in interest) shall have all the rights of a shareholder (including voting, dividend and liquidation rights) with respect to the Restricted Shares, subject, however, to the transfer restrictions of Sections 5.2 and 6.

5. Securities Law Compliance.

5.1 Restricted Securities. The Shares have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), and are being issued to Employee in reliance upon the exemption from such registration provided by, among other exemptions, the nonpublic offering exemption provided by Section 4(2) of the 1933 Act and, therefore, are subject to restrictions on further transfer under the 1933 Act. Employee hereby confirms that Employee has been informed that the Shares are restricted securities under the 1933 Act and may not be resold or transferred unless the Shares are first registered under the Federal securities laws or unless an exemption from such registration is available. Accordingly, Employee hereby acknowledges that Employee is prepared to hold the Shares for an indefinite period and that Employee is aware that Rule 144 issued under the 1933 Act which exempts certain resales of unrestricted securities is not presently available to exempt the resale of the Shares from the registration requirements of the 1933 Act.

5.2 Disposition of Shares. Employee shall make no disposition of the Shares, which are not subject to the Repurchase Right, unless and until there is compliance with all of the following requirements:

(a) Employee shall have provided Company with a written summary of the terms and conditions of the proposed disposition.

(b) Employee shall have complied with all requirements of this Agreement applicable to the disposition of the Shares.

(c) Employee shall have provided Company with written assurances, in form and substance satisfactory to Company, that (i) the proposed disposition does not require registration of the Shares under the 1933 Act or (ii) all appropriate action necessary for compliance with the registration requirements of the 1933 Act or any exemption from registration available under the 1933 Act (including Rule 144) has been taken.

Company shall not be required (A) to transfer on its books any Shares which have been sold or transferred in violation of the provisions of this Agreement or (B) to treat as the owner of the Shares, or otherwise to accord voting, dividend or liquidation rights to, any transferee to whom the Shares have been transferred in contravention of this Agreement.

5.3 Restrictive Legends. The stock certificates for all the Shares shall be endorsed with the legend set forth in subsection (a) below, and the stock certificates for the Restricted Shares shall be endorsed with the legend set forth in subsection (b) below:

(a) "The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares may not be sold or offered for sale in the absence of (i) an effective registration statement for the shares under such Act, (ii) a "no action" letter of the Securities and Exchange Commission with respect to such sale or offer or (iii) satisfactory assurances to the Company that registration under such Act is not required with respect to such sale or offer."

(b) "The shares represented by this certificate are unvested and are subject to certain repurchase rights granted to the Company and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated April 19, 2002 between the Company and the registered holder of the shares (or the predecessor in interest to the shares). A copy of such agreement is maintained at the Company's principal corporate offices."

6. Additional Transfer Restrictions. Notwithstanding any other provision of this Agreement, the Employee shall not transfer, assign, encumber or otherwise dispose of any of the Restricted Shares which are subject to the Repurchase Right.

7. Escrow.

7.1 Deposit. Upon issuance, the certificates for the Restricted Shares which are subject to the Repurchase Right shall be deposited in escrow with the Company to be held in accordance with the provisions of this Section 7. Each deposited certificate shall be accompanied by a duly-executed Stock Power of Attorney in the form of Exhibit "A." The deposited certificates, together with any other assets or securities from time to time deposited with Company pursuant to the requirements of this Agreement, shall remain in escrow until such time or times as the certificates (or other assets and securities) are to be released or otherwise surrendered for cancellation in accordance with 7.3. Upon delivery of the certificates (or other assets and securities) to Company, Employee shall be issued a receipt acknowledging the number of Restricted Shares (or other assets and securities) delivered in escrow.

7.2 Recapitalization Reorganization. Any new, substituted or additional securities or other property which is by reason of any Recapitalization as contemplated under Section 2.4, distributed with respect to the Restricted Shares shall be immediately delivered to Company to be held in escrow under this Section 7, but only to the extent the Restricted Shares are at the time subject to the escrow requirements hereunder. However, all regular cash dividends on the Restricted Shares (or other securities at the time held in escrow) shall be paid directly to Employee and shall not be held in escrow.

7.3 Release/Surrender. The Restricted Shares, together with any other assets or securities held in escrow hereunder, shall be subject to the following terms relating to their release from escrow or their surrender to Company for repurchase and cancellation:

(a) Should Company elect to exercise the Repurchase Right with respect to any Unvested Shares, then the escrowed certificates for those Unvested Shares (together with any other assets or securities attributable thereto) shall be surrendered to Company concurrently with the payment to Employee of an amount equal to the aggregate Purchase Price paid for those Unvested Shares, and Employee shall cease to have any further rights or claims with respect to such Unvested Shares (or other assets or securities attributable thereto).

(b) Should Company elect not to exercise the Repurchase Right with respect to any Unvested Shares held at the time in escrow hereunder, then the escrowed certificates for those shares (together with any other assets or securities attributable thereto) shall be immediately released to Employee.

(c) As the Unvested Shares (or any other assets or securities attributable thereto) vest in accordance with the Vesting Schedule described in Section 2.3 and set forth in Exhibit "B," the certificates for those vested shares (as well as all other vested assets and securities) shall be released from escrow upon Employee's request, but not more frequently than once every six months.

(d) All Unvested Shares which vest (and any other vested assets and securities attributable thereto) shall be released within 30 days after the termination of Employee's employment with Company for any reason.

8. Special Tax Election

8.1 Section 83(b) Election. Under section 83 of the Internal Revenue Code of 1986 (the "Code"), the excess of the fair market value of the Shares on the date any forfeiture restrictions applicable to such shares lapse over the Purchase Price paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions," among other things, includes the right of Company to repurchase the Unvested Shares pursuant to the Repurchase Right. Employee may elect under section 83(b) of the Code to be taxed at the time the Shares are acquired, rather than when and as such Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within 30 days after the date of this Agreement. Regardless of whether the fair market value of the Shares on the date of this Agreement exceeds the Purchase Price paid, the election must be made to avoid adverse tax consequences in the future. **THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT "C" HERETO. EMPLOYEE UNDERSTANDS THAT FAILURE TO MAKE TO MAKE THIS FILING WITHIN THE APPLICABLE 30-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE.**

8.2 Filing Responsibility. EMPLOYEE ACKNOWLEDGES THAT IT IS EMPLOYEE'S SOLE RESPONSIBILITY, AND NOT COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF EMPLOYEE REQUESTS COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF. EMPLOYEE FURTHER ACKNOWLEDGES THAT THE COMPANY RECOMMENDS THAT EMPLOYEE CONSULT WITH A TAX PROFESSIONAL BEFORE MAKING AN ELECTION UNDER SECTION 83(b) OF THE CODE.

9. Miscellaneous

9.1 Assignment. Company may assign the Repurchase Right to any person or entity selected by the Board.

9.2 No Employment or Service Contract. Nothing in this Agreement shall confer upon Employee any right to continue in the employment of Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of Company (or any parent or subsidiary employing or retaining Employee) or of Employee, which rights are hereby expressly reserved by each, to terminate Employee's employment with Company at any time for any reason, with or without cause.

9.3 Notices. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten days advance written notice under this paragraph to all other parties to this Agreement.

9.4 No Waiver. The failure of Company in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights that may subsequently arise under the provisions of this Agreement or any other agreement between Company and Employee. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

9.5 Cancellation of Shares. If Company shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Restricted Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and Company shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

9.6 Undertaking. Employee hereby agrees to take whatever additional action, including the furnishing of information to the Company, and execute whatever additional documents Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Employee or the Restricted Shares pursuant to the provisions of this Agreement.

9.7 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas without resort to that State's conflict-of-laws rules.

9.8 Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, Company and its successors and assigns and upon Employee, Employee's assigns and the legal representatives, heirs and legatees of Employee's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof.

9.9 Administration. The Company retains administration rights with respect to this Agreement. These rights include the discretion to (a) adopt, amend, and rescind administrative and interpretive rules and regulations relating to the Agreement; (b) construe the Agreement; and (c) delegate its duties hereunder to such agents as it may appoint from time to time.

9.10 **Taxes.** The Company may from time to time, in its discretion, require Employee to pay to the Company, the amount that the Company deems necessary to satisfy the Company's current or future obligation to withhold federal, state or local income or other taxes that Employee incurs as a result of this Agreement. With respect to any required tax withholding, Employee may (a) direct the Company to withhold from the shares of Common Stock to be issued to Employee the number of shares necessary to satisfy the Company's obligation to withhold taxes, that determination to be based on the shares' fair market value at the time as of which such determination is made; (b) deliver to the Company sufficient shares of Common Stock to satisfy the Company's tax withholding obligations, based on the shares' fair market value at the time as of which such determination is made; or (c) deliver sufficient cash to the Company to satisfy its tax withholding obligations. If Employee elects to use such a stock withholding feature, Employee must make the election at the time and in the manner that the Company prescribes. The Company may, at its sole option, deny Employee's request to satisfy withholding obligations through Common Stock instead of cash. In the event the Company subsequently determines that the aggregate fair market value of any shares of Common Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then Employee shall pay to the Company, immediately upon the Company's request, the amount of that deficiency. Determination of the Common Stock's fair market value shall be made in good faith by the Company.

9.11 **Amendments.** The Company may amend, alter, suspend, discontinue or terminate this Agreement; provided that, without the consent of Employee, no such Company action may materially and adversely affect the rights of Employee under this Agreement without Employee's consent.

9.12 **Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and the Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

9.13 **No Liability for Good Faith Determinations.** The Company and the members of the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Restricted Shares granted hereunder.

9.14 **No Guarantee of Interests.** The Board and the Company do not guarantee the Common Stock of the Company from loss or depreciation.

10. Definitions

10.1 **Board** means the Company's Board of Directors.

10.2 **Change in Control** means the event that is deemed to have occurred if: (a) the Company shall not be the surviving entity in any merger or consolidation (or survives only as a Subsidiary of an entity other than a previously wholly owned subsidiary of the Company), (b) the Company sells, leases or exchanges or agrees to sell, lease or exchange all or

substantially all of its assets to any other person or entity (other than a wholly-owned subsidiary of the Company), (c) the Company is to be dissolved and liquidated, or (d) any person or entity, including a “group” as contemplated by Section 13(d)(3) of the Exchange Act (other than any stockholder or holder of warrants or options to acquire capital stock of the Company on the date hereof), acquires or for the first time controls or is able to vote (directly or through nominees or beneficial ownership) after the date hereof (other than as the direct result of a transfer by descent or distribution of a decedent’s estate) fifty percent (50%) or more of the deemed issued and outstanding stock of the Company having power ordinarily to vote for directors of the Company (on a fully-diluted, as converted basis).

10.3 **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

10.4 **Person** means any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a trust or other entity; a Person, together with that Person’s “Affiliates” and “Associates” (as those terms are defined in Rule 12b-2 under the Exchange Act), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting or disposing of securities of the Company with such Person, shall be deemed a single “Person.”

10.5 **Subsidiary** means with respect to any Person, any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first indicated above.

COMPANY:

MONITRONICS INTERNATIONAL, INC.

By: _____ /s/ James R. Hull

Name: James R. Hull
Title: President and CEO

EMPLOYEE:

By: _____ /s/ James R. Hull

Name: James R. Hull
Title: President and CEO

EXHIBIT B
VESTING SCHEDULE

- 100% shall vest on the date of this Agreement

RESTRICTED STOCK OWNERSHIP AGREEMENT

This **RESTRICTED STOCK OWNERSHIP AGREEMENT** (the "Agreement") is made as of April 19, 2002, by and between Monitronics International, Inc., a Texas corporation (the "Company"), and Michael Meyers, an employee of the Company (the "Employee").

WHEREAS, pursuant to this Agreement, the Company desires to transfer to the Employee 39,231 shares (the "Shares") of the Company's Class A Common Stock, \$0.01 par value, per share (the "Common Stock") which shares shall be subject to certain restrictions as set forth herein and shall be herein referred to as the "Restricted Shares"; and

WHEREAS, Company and Employee desire to enter into this Agreement to provide for restrictions on transfer and forfeiture of the Restricted Shares prior to the vesting of such Restricted Shares and removal of such forfeiture restrictions upon vesting of the Restricted Shares.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements set forth herein, together with other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Purchase of Restricted Shares.** Concurrently with execution of this Agreement, Employee has purchased the Restricted Shares and paid the purchase price of \$0.01 per share (the "Purchase Price"). Concurrently with execution of this Agreement and payment of the Purchase Price, Employee shall also execute and deliver to Company an executed blank Stock Power of Attorney in the form attached hereto as Exhibit "A" with respect to the Restricted Shares.

2. Repurchase Right

2.1 Grant. Employee hereby grants to Company the right (the "Repurchase Right") exercisable at any time during the 180-day period following the date Employee's employment by Company is terminated for any reason, to repurchase at the Purchase Price all or any portion of the Restricted Shares in which Employee is not, at the time of his or her termination of employment, vested in accordance with the Vesting Schedule described in Section 2.3 and set forth in the form attached hereto as Exhibit "B" (such shares to be hereinafter referred to as the "Unvested Shares").

2.2 Exercise of the Repurchase Right. The Repurchase Right shall be exercisable by written notice delivered to Employee prior to the expiration of the 180-day exercise period. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than 30 days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to Company prior to the close of business on the date specified for the repurchase. Concurrently with the receipt of such stock certificates, Company shall pay to Employee, in cash or cash equivalents (including the cancellation of any purchase-money indebtedness), an amount equal to the Purchase Price previously paid for the Unvested Shares which are to be repurchased from Employee.

2.3 Termination of the Repurchase Right. The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Section 2.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to any and all Unvested Shares in which Participant vests in accordance with the Vesting Schedule set forth in Exhibit B.

Notwithstanding the foregoing, the Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right upon a “Change of Control.”

2.4 Recapitalization. Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any “Recapitalization” distributed with respect to the Unvested Shares shall be immediately subject to the Repurchase Right, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of Unvested Shares subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same. For purposes of this Agreement, a “Recapitalization” shall mean any stock split, stock dividend, recapitalization, reorganization, combination of shares, exchange of shares, or other change affecting the outstanding Common Stock as a class without the Company’s receipt of consideration.

2.5 Corporate Transaction.

(a) The Repurchase Right shall be assignable by Company to any successor entity of Company in a merger or consolidation, share exchange, or sale, transfer or other disposition of all or substantially all of the Company’s assets in complete liquidation or dissolution of the Company; subject, however, to termination on the Repurchase Right in accordance with Section 2.3 if a Change of Control has occurred as a result thereof. However, to the extent the successor entity does not accept such assignment, the Repurchase Right shall lapse immediately prior to the consummation of the transaction with such successor entity.

(b) To the extent the Repurchase Right remains in effect following any such transaction, such right shall apply to the new capital stock or other property (including any cash payments) received in exchange for the Unvested Shares in consummation of such transaction, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments shall be made to the price per share payable upon exercise of the Repurchase Right to reflect the effect of such transaction upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same.

3. Delivery of Certificates. The certificates representing any Restricted Shares which are subject to the Repurchase Right shall be held in escrow in accordance with the provisions of this Agreement.

4. Shareholder Rights. Until such time as the Company exercises the Repurchase Right, Employee (or any permitted successor in interest) shall have all the rights of a shareholder (including voting, dividend and liquidation rights) with respect to the Restricted Shares, subject, however, to the transfer restrictions of Sections 5.2 and 6.

5. Securities Law Compliance.

5.1 Restricted Securities. The Shares have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), and are being issued to Employee in reliance upon the exemption from such registration provided by, among other exemptions, the nonpublic offering exemption provided by Section 4(2) of the 1933 Act and, therefore, are subject to restrictions on further transfer under the 1933 Act. Employee hereby confirms that Employee has been informed that the Shares are restricted securities under the 1933 Act and may not be resold or transferred unless the Shares are first registered under the Federal securities laws or unless an exemption from such registration is available. Accordingly, Employee hereby acknowledges that Employee is prepared to hold the Shares for an indefinite period and that Employee is aware that Rule 144 issued under the 1933 Act which exempts certain resales of unrestricted securities is not presently available to exempt the resale of the Shares from the registration requirements of the 1933 Act.

5.2 Disposition of Shares. Employee shall make no disposition of the Shares, which are not subject to the Repurchase Right, unless and until there is compliance with all of the following requirements:

(a) Employee shall have provided Company with a written summary of the terms and conditions of the proposed disposition.

(b) Employee shall have complied with all requirements of this Agreement applicable to the disposition of the Shares.

(c) Employee shall have provided Company with written assurances, in form and substance satisfactory to Company, that (i) the proposed disposition does not require registration of the Shares under the 1933 Act or (ii) all appropriate action necessary for compliance with the registration requirements of the 1933 Act or any exemption from registration available under the 1933 Act (including Rule 144) has been taken.

Company shall not be required (A) to transfer on its books any Shares which have been sold or transferred in violation of the provisions of this Agreement or (B) to treat as the owner of the Shares, or otherwise to accord voting, dividend or liquidation rights to, any transferee to whom the Shares have been transferred in contravention of this Agreement.

5.3 Restrictive Legends. The stock certificates for all the Shares shall be endorsed with the legend set forth in subsection (a) below, and the stock certificates for the Restricted Shares shall be endorsed with the legend set forth in subsection (b) below:

(a) "The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares may not be sold or offered for sale in the absence of (i) an effective registration statement for the shares under such Act, (ii) a "no action" letter of the Securities and Exchange Commission with respect to such sale or offer or (iii) satisfactory assurances to the Company that registration under such Act is not required with respect to such sale or offer."

(b) "The shares represented by this certificate are unvested and are subject to certain repurchase rights granted to the Company and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated April 19, 2002 between the Company and the registered holder of the shares (or the predecessor in interest to the shares). A copy of such agreement is maintained at the Company's principal corporate offices."

6. Additional Transfer Restrictions. Notwithstanding any other provision of this Agreement, the Employee shall not transfer, assign, encumber or otherwise dispose of any of the Restricted Shares which are subject to the Repurchase Right.

7. Escrow.

7.1 Deposit. Upon issuance, the certificates for the Restricted Shares which are subject to the Repurchase Right shall be deposited in escrow with the Company to be held in accordance with the provisions of this Section 7. Each deposited certificate shall be accompanied by a duly-executed Stock Power of Attorney in the form of Exhibit "A." The deposited certificates, together with any other assets or securities from time to time deposited with Company pursuant to the requirements of this Agreement, shall remain in escrow until such time or times as the certificates (or other assets and securities) are to be released or otherwise surrendered for cancellation in accordance with 7.3. Upon delivery of the certificates (or other assets and securities) to Company, Employee shall be issued a receipt acknowledging the number of Restricted Shares (or other assets and securities) delivered in escrow.

7.2 Recapitalization Reorganization. Any new, substituted or additional securities or other property which is by reason of any Recapitalization as contemplated under Section 2.4, distributed with respect to the Restricted Shares shall be immediately delivered to Company to be held in escrow under this Section 7, but only to the extent the Restricted Shares are at the time subject to the escrow requirements hereunder. However, all regular cash dividends on the Restricted Shares (or other securities at the time held in escrow) shall be paid directly to Employee and shall not be held in escrow.

7.3 Release/Surrender. The Restricted Shares, together with any other assets or securities held in escrow hereunder, shall be subject to the following terms relating to their release from escrow or their surrender to Company for repurchase and cancellation:

(a) Should Company elect to exercise the Repurchase Right with respect to any Unvested Shares, then the escrowed certificates for those Unvested Shares (together with any other assets or securities attributable thereto) shall be surrendered to Company concurrently with the payment to Employee of an amount equal to the aggregate Purchase Price paid for those Unvested Shares, and Employee shall cease to have any further rights or claims with respect to such Unvested Shares (or other assets or securities attributable thereto).

(b) Should Company elect not to exercise the Repurchase Right with respect to any Unvested Shares held at the time in escrow hereunder, then the escrowed certificates for those shares (together with any other assets or securities attributable thereto) shall be immediately released to Employee.

(c) As the Unvested Shares (or any other assets or securities attributable thereto) vest in accordance with the Vesting Schedule described in Section 2.3 and set forth in Exhibit "B," the certificates for those vested shares (as well as all other vested assets and securities) shall be released from escrow upon Employee's request, but not more frequently than once every six months.

(d) All Unvested Shares which vest (and any other vested assets and securities attributable thereto) shall be released within 30 days after the termination of Employee's employment with Company for any reason.

8. Special Tax Election

8.1 Section 83(b) Election. Under section 83 of the Internal Revenue Code of 1986 (the "Code"), the excess of the fair market value of the Shares on the date any forfeiture restrictions applicable to such shares lapse over the Purchase Price paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions," among other things, includes the right of Company to repurchase the Unvested Shares pursuant to the Repurchase Right. Employee may elect under section 83(b) of the Code to be taxed at the time the Shares are acquired, rather than when and as such Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within 30 days after the date of this Agreement. Regardless of whether the fair market value of the Shares on the date of this Agreement exceeds the Purchase Price paid, the election must be made to avoid adverse tax consequences in the future. **THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT "C" HERETO. EMPLOYEE UNDERSTANDS THAT FAILURE TO MAKE TO MAKE THIS FILING WITHIN THE APPLICABLE 30-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE.**

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9. Miscellaneous

9.1 Assignment. Company may assign the Repurchase Right to any person or entity selected by the Board.

9.2 No Employment or Service Contract. Nothing in this Agreement shall confer upon Employee any right to continue in the employment of Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of Company (or any parent or subsidiary employing or retaining Employee) or of Employee, which rights are hereby expressly reserved by each, to terminate Employee's employment with Company at any time for any reason, with or without cause.

9.3 Notices. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten days advance written notice under this paragraph to all other parties to this Agreement.

9.4 No Waiver. The failure of Company in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights that may subsequently arise under the provisions of this Agreement or any other agreement between Company and Employee. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

9.5 Cancellation of Shares. If Company shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Restricted Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and Company shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

9.6 Undertaking. Employee hereby agrees to take whatever additional action, including the furnishing of information to the Company, and execute whatever additional documents Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Employee or the Restricted Shares pursuant to the provisions of this Agreement.

9.7 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas without resort to that State's conflict-of-laws rules.

9.8 Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, Company and its successors and assigns and upon Employee, Employee's assigns and the legal representatives, heirs and legatees of Employee's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof.

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9.11 **Amendments.** The Company may amend, alter, suspend, discontinue or terminate this Agreement; provided that, without the consent of Employee, no such Company action may materially and adversely affect the rights of Employee under this Agreement without Employee's consent.

9.12 **Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and the Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

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10. Definitions

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substantially all of its assets to any other person or entity (other than a wholly-owned subsidiary of the Company), (c) the Company is to be dissolved and liquidated, or (d) any person or entity, including a “group” as contemplated by Section 13(d)(3) of the Exchange Act (other than any stockholder or holder of warrants or options to acquire capital stock of the Company on the date hereof), acquires or for the first time controls or is able to vote (directly or through nominees or beneficial ownership) after the date hereof (other than as the direct result of a transfer by descent or distribution of a decedent’s estate) fifty percent (50%) or more of the deemed issued and outstanding stock of the Company having power ordinarily to vote for directors of the Company (on a fully-diluted, as converted basis).

10.3 **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

10.4 **Person** means any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a trust or other entity; a Person, together with that Person’s “Affiliates” and “Associates” (as those terms are defined in Rule 12b-2 under the Exchange Act), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting or disposing of securities of the Company with such Person, shall be deemed a single “Person.”

10.5 **Subsidiary** means with respect to any Person, any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first indicated above.

COMPANY:

MONITRONICS INTERNATIONAL, INC.

By: _____ /s/ James R. Hull

Name: James R. Hull
Title: President and CEO

EMPLOYEE:

By: _____ /s/ Michael Meyers

Name: Michael Meyers

EXHIBIT B
VESTING SCHEDULE

- 20% shall vest on the date of this Agreement
- 20% shall vest on the first anniversary of the date of this Agreement
- 20% shall vest of the second anniversary of the date hereof
- 20% shall vest of the third anniversary of the date hereof
- 20% shall vest of the fourth anniversary of the date hereof

RESTRICTED STOCK OWNERSHIP AGREEMENT

This **RESTRICTED STOCK OWNERSHIP AGREEMENT** (the "Agreement") is made as of April 19, 2002, by and between Monitronics International, Inc., a Texas corporation (the "Company"), and Michael Gregory, an employee of the Company (the "Employee").

WHEREAS, pursuant to this Agreement, the Company desires to transfer to the Employee 22,435 shares (the "Shares") of the Company's Class A Common Stock, \$0.01 par value, per share (the "Common Stock") which shares shall be subject to certain restrictions as set forth herein and shall be herein referred to as the "Restricted Shares"; and

WHEREAS, Company and Employee desire to enter into this Agreement to provide for restrictions on transfer and forfeiture of the Restricted Shares prior to the vesting of such Restricted Shares and removal of such forfeiture restrictions upon vesting of the Restricted Shares.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements set forth herein, together with other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Purchase of Restricted Shares.** Concurrently with execution of this Agreement, Employee has purchased the Restricted Shares and paid the purchase price of \$0.01 per share (the "Purchase Price"). Concurrently with execution of this Agreement and payment of the Purchase Price, Employee shall also execute and deliver to Company an executed blank Stock Power of Attorney in the form attached hereto as Exhibit "A" with respect to the Restricted Shares.

2. Repurchase Right

2.1 Grant. Employee hereby grants to Company the right (the "Repurchase Right") exercisable at any time during the 180-day period following the date Employee's employment by Company is terminated for any reason, to repurchase at the Purchase Price all or any portion of the Restricted Shares in which Employee is not, at the time of his or her termination of employment, vested in accordance with the Vesting Schedule described in Section 2.3 and set forth in the form attached hereto as Exhibit "B" (such shares to be hereinafter referred to as the "Unvested Shares").

2.2 Exercise of the Repurchase Right. The Repurchase Right shall be exercisable by written notice delivered to Employee prior to the expiration of the 180-day exercise period. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than 30 days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to Company prior to the close of business on the date specified for the repurchase. Concurrently with the receipt of such stock certificates, Company shall pay to Employee, in cash or cash equivalents (including the cancellation of any purchase-money indebtedness), an amount equal to the Purchase Price previously paid for the Unvested Shares which are to be repurchased from Employee.

2.3 Termination of the Repurchase Right. The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Section 2.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to any and all Unvested Shares in which Participant vests in accordance with the Vesting Schedule set forth in Exhibit B.

Notwithstanding the foregoing, the Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right upon a “Change of Control” in connection with the Change in Control, as determined by the Company in good faith, all Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right.

2.4 Recapitalization. Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any “Recapitalization” distributed with respect to the Unvested Shares shall be immediately subject to the Repurchase Right, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of Unvested Shares subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same. For purposes of this Agreement, a “Recapitalization” shall mean any stock split, stock dividend, recapitalization, reorganization, combination of shares, exchange of shares, or other change affecting the outstanding Common Stock as a class without the Company’s receipt of consideration.

2.5 Corporate Transaction.

(a) The Repurchase Right shall be assignable by Company to any successor entity of Company in a merger or consolidation, share exchange, or sale, transfer or other disposition of all or substantially all of the Company’s assets in complete liquidation or dissolution of the Company; subject, however, to termination on the Repurchase Right in accordance with Section 2.3 if a Change of Control has occurred as a result thereof. However, to the extent the successor entity does not accept such assignment, the Repurchase Right shall lapse immediately prior to the consummation of the transaction with such successor entity.

(b) To the extent the Repurchase Right remains in effect following any such transaction, such right shall apply to the new capital stock or other property (including any cash payments) received in exchange for the Unvested Shares in consummation of such transaction, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments shall be made to the price per share payable upon exercise of the Repurchase Right to reflect the effect of such transaction upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same.

3. Delivery of Certificates. The certificates representing any Restricted Shares which are subject to the Repurchase Right shall be held in escrow in accordance with the provisions of this Agreement.

4. Shareholder Rights. Until such time as the Company exercises the Repurchase Right, Employee (or any permitted successor in interest) shall have all the rights of a shareholder (including voting, dividend and liquidation rights) with respect to the Restricted Shares, subject, however, to the transfer restrictions of Sections 5.2 and 6.

5. Securities Law Compliance.

5.1 Restricted Securities. The Shares have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), and are being issued to Employee in reliance upon the exemption from such registration provided by, among other exemptions, the nonpublic offering exemption provided by Section 4(2) of the 1933 Act and, therefore, are subject to restrictions on further transfer under the 1933 Act. Employee hereby confirms that Employee has been informed that the Shares are restricted securities under the 1933 Act and may not be resold or transferred unless the Shares are first registered under the Federal securities laws or unless an exemption from such registration is available. Accordingly, Employee hereby acknowledges that Employee is prepared to hold the Shares for an indefinite period and that Employee is aware that Rule 144 issued under the 1933 Act which exempts certain resales of unrestricted securities is not presently available to exempt the resale of the Shares from the registration requirements of the 1933 Act.

5.2 Disposition of Shares. Employee shall make no disposition of the Shares, which are not subject to the Repurchase Right, unless and until there is compliance with all of the following requirements:

(a) Employee shall have provided Company with a written summary of the terms and conditions of the proposed disposition.

(b) Employee shall have complied with all requirements of this Agreement applicable to the disposition of the Shares.

(c) Employee shall have provided Company with written assurances, in form and substance satisfactory to Company, that (i) the proposed disposition does not require registration of the Shares under the 1933 Act or (ii) all appropriate action necessary for compliance with the registration requirements of the 1933 Act or any exemption from registration available under the 1933 Act (including Rule 144) has been taken.

Company shall not be required (A) to transfer on its books any Shares which have been sold or transferred in violation of the provisions of this Agreement or (B) to treat as the owner of the Shares, or otherwise to accord voting, dividend or liquidation rights to, any transferee to whom the Shares have been transferred in contravention of this Agreement.

5.3 Restrictive Legends. The stock certificates for all the Shares shall be endorsed with the legend set forth in subsection (a) below, and the stock certificates for the Restricted Shares shall be endorsed with the legend set forth in subsection (b) below:

(a) "The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares may not be sold or offered for sale in the absence of (i) an effective registration statement for the shares under such Act, (ii) a "no action" letter of the Securities and Exchange Commission with respect to such sale or offer or (iii) satisfactory assurances to the Company that registration under such Act is not required with respect to such sale or offer."

(b) "The shares represented by this certificate are unvested and are subject to certain repurchase rights granted to the Company and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated April 19, 2002 between the Company and the registered holder of the shares (or the predecessor in interest to the shares). A copy of such agreement is maintained at the Company's principal corporate offices."

6. Additional Transfer Restrictions. Notwithstanding any other provision of this Agreement, the Employee shall not transfer, assign, encumber or otherwise dispose of any of the Restricted Shares which are subject to the Repurchase Right.

7. Escrow.

7.1 Deposit. Upon issuance, the certificates for the Restricted Shares which are subject to the Repurchase Right shall be deposited in escrow with the Company to be held in accordance with the provisions of this Section 7. Each deposited certificate shall be accompanied by a duly-executed Stock Power of Attorney in the form of Exhibit "A." The deposited certificates, together with any other assets or securities from time to time deposited with Company pursuant to the requirements of this Agreement, shall remain in escrow until such time or times as the certificates (or other assets and securities) are to be released or otherwise surrendered for cancellation in accordance with 7.3. Upon delivery of the certificates (or other assets and securities) to Company, Employee shall be issued a receipt acknowledging the number of Restricted Shares (or other assets and securities) delivered in escrow.

7.2 Recapitalization Reorganization. Any new, substituted or additional securities or other property which is by reason of any Recapitalization as contemplated under Section 2.4, distributed with respect to the Restricted Shares shall be immediately delivered to Company to be held in escrow under this Section 7, but only to the extent the Restricted Shares are at the time subject to the escrow requirements hereunder. However, all regular cash dividends on the Restricted Shares (or other securities at the time held in escrow) shall be paid directly to Employee and shall not be held in escrow.

7.3 Release/Surrender. The Restricted Shares, together with any other assets or securities held in escrow hereunder, shall be subject to the following terms relating to their release from escrow or their surrender to Company for repurchase and cancellation:

(a) Should Company elect to exercise the Repurchase Right with respect to any Unvested Shares, then the escrowed certificates for those Unvested Shares (together with any other assets or securities attributable thereto) shall be surrendered to Company concurrently with the payment to Employee of an amount equal to the aggregate Purchase Price paid for those Unvested Shares, and Employee shall cease to have any further rights or claims with respect to such Unvested Shares (or other assets or securities attributable thereto).

(b) Should Company elect not to exercise the Repurchase Right with respect to any Unvested Shares held at the time in escrow hereunder, then the escrowed certificates for those shares (together with any other assets or securities attributable thereto) shall be immediately released to Employee.

(c) As the Unvested Shares (or any other assets or securities attributable thereto) vest in accordance with the Vesting Schedule described in Section 2.3 and set forth in Exhibit "B," the certificates for those vested shares (as well as all other vested assets and securities) shall be released from escrow upon Employee's request, but not more frequently than once every six months.

(d) All Unvested Shares which vest (and any other vested assets and securities attributable thereto) shall be released within 30 days after the termination of Employee's employment with Company for any reason.

8. Special Tax Election

8.1 Section 83(b) Election. Under section 83 of the Internal Revenue Code of 1986 (the "Code"), the excess of the fair market value of the Shares on the date any forfeiture restrictions applicable to such shares lapse over the Purchase Price paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions," among other things, includes the right of Company to repurchase the Unvested Shares pursuant to the Repurchase Right. Employee may elect under section 83(b) of the Code to be taxed at the time the Shares are acquired, rather than when and as such Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within 30 days after the date of this Agreement. Regardless of whether the fair market value of the Shares on the date of this Agreement exceeds the Purchase Price paid, the election must be made to avoid adverse tax consequences in the future. **THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT "C" HERETO. EMPLOYEE UNDERSTANDS THAT FAILURE TO MAKE TO MAKE THIS FILING WITHIN THE APPLICABLE 30-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE.**

8.2 Filing Responsibility. EMPLOYEE ACKNOWLEDGES THAT IT IS EMPLOYEE'S SOLE RESPONSIBILITY, AND NOT COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF EMPLOYEE REQUESTS COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF. EMPLOYEE FURTHER ACKNOWLEDGES THAT THE COMPANY RECOMMENDS THAT EMPLOYEE CONSULT WITH A TAX PROFESSIONAL BEFORE MAKING AN ELECTION UNDER SECTION 83(b) OF THE CODE.

9. Miscellaneous

9.1 Assignment. Company may assign the Repurchase Right to any person or entity selected by the Board.

9.2 No Employment or Service Contract. Nothing in this Agreement shall confer upon Employee any right to continue in the employment of Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of Company (or any

parent or subsidiary employing or retaining Employee) or of Employee, which rights are hereby expressly reserved by each, to terminate Employee's employment with Company at any time for any reason, with or without cause.

9.3 Notices. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten days advance written notice under this paragraph to all other parties to this Agreement.

9.4 No Waiver. The failure of Company in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights that may subsequently arise under the provisions of this Agreement or any other agreement between Company and Employee. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

9.5 Cancellation of Shares. If Company shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Restricted Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and Company shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

9.6 Undertaking. Employee hereby agrees to take whatever additional action, including the furnishing of information to the Company, and execute whatever additional documents Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Employee or the Restricted Shares pursuant to the provisions of this Agreement.

9.7 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas without resort to that State's conflict-of-laws rules.

9.8 Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, Company and its successors and assigns and upon Employee, Employee's assigns and the legal representatives, heirs and legatees of Employee's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof.

9.9 Administration. The Company retains administration rights with respect to this Agreement. These rights include the discretion to (a) adopt, amend, and rescind administrative and interpretive rules and regulations relating to the Agreement; (b) construe the Agreement; and (c) delegate its duties hereunder to such agents as it may appoint from time to time.

9.10 **Taxes.** The Company may from time to time, in its discretion, require Employee to pay to the Company, the amount that the Company deems necessary to satisfy the Company's current or future obligation to withhold federal, state or local income or other taxes that Employee incurs as a result of this Agreement. With respect to any required tax withholding, Employee may (a) direct the Company to withhold from the shares of Common Stock to be issued to Employee the number of shares necessary to satisfy the Company's obligation to withhold taxes, that determination to be based on the shares' fair market value at the time as of which such determination is made; (b) deliver to the Company sufficient shares of Common Stock to satisfy the Company's tax withholding obligations, based on the shares' fair market value at the time as of which such determination is made; or (c) deliver sufficient cash to the Company to satisfy its tax withholding obligations. If Employee elects to use such a stock withholding feature, Employee must make the election at the time and in the manner that the Company prescribes. The Company may, at its sole option, deny Employee's request to satisfy withholding obligations through Common Stock instead of cash. In the event the Company subsequently determines that the aggregate fair market value of any shares of Common Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then Employee shall pay to the Company, immediately upon the Company's request, the amount of that deficiency. Determination of the Common Stock's fair market value shall be made in good faith by the Company.

9.11 **Amendments.** The Company may amend, alter, suspend, discontinue or terminate this Agreement; provided that, without the consent of Employee, no such Company action may materially and adversely affect the rights of Employee under this Agreement without Employee's consent.

9.12 **Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and the Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

9.13 **No Liability for Good Faith Determinations.** The Company and the members of the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Restricted Shares granted hereunder.

9.14 **No Guarantee of Interests.** The Board and the Company do not guarantee the Common Stock of the Company from loss or depreciation.

10. Definitions

10.1 **Board** means the Company's Board of Directors.

10.2 **Change in Control** means the event that is deemed to have occurred if: (a) the Company shall not be the surviving entity in any merger or consolidation (or survives only as a Subsidiary of an entity other than a previously wholly owned subsidiary of the Company), (b) the Company sells, leases or exchanges or agrees to sell, lease or exchange all or

substantially all of its assets to any other person or entity (other than a wholly-owned subsidiary of the Company), (c) the Company is to be dissolved and liquidated, or (d) any person or entity, including a “group” as contemplated by Section 13(d)(3) of the Exchange Act (other than any stockholder or holder of warrants or options to acquire capital stock of the Company on the date hereof), acquires or for the first time controls or is able to vote (directly or through nominees or beneficial ownership) after the date hereof (other than as the direct result of a transfer by descent or distribution of a decedent’s estate) fifty percent (50%) or more of the deemed issued and outstanding stock of the Company having power ordinarily to vote for directors of the Company (on a fully-diluted, as converted basis).

10.3 **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

10.4 **Person** means any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a trust or other entity; a Person, together with that Person’s “Affiliates” and “Associates” (as those terms are defined in Rule 12b-2 under the Exchange Act), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting or disposing of securities of the Company with such Person, shall be deemed a single “Person.”

10.5 **Subsidiary** means with respect to any Person, any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first indicated above.

COMPANY:

MONITRONICS INTERNATIONAL, INC.

By: _____ /s/ James R. Hull

Name: James R. Hull
Title: President and CEO

EMPLOYEE:

By: _____ /s/ Michael Gregory

Name: Michael Gregory

EXHIBIT B
VESTING SCHEDULE

- 20% shall vest on the date of this Agreement
- 20% shall vest on the first anniversary of the date of this Agreement
- 20% shall vest of the second anniversary of the date hereof
- 20% shall vest of the third anniversary of the date hereof
- 20% shall vest of the fourth anniversary of the date hereof

RESTRICTED STOCK OWNERSHIP AGREEMENT

This **RESTRICTED STOCK OWNERSHIP AGREEMENT** (the "Agreement") is made as of April 19, 2002, by and between Monitronics International, Inc., a Texas corporation (the "Company"), and Robert Sherman, an employee of the Company (the "Employee").

WHEREAS, pursuant to this Agreement, the Company desires to transfer to the Employee 89,538 shares (the "Shares") of the Company's Class A Common Stock, \$0.01 par value, per share (the "Common Stock") which shares shall be subject to certain restrictions as set forth herein and shall be herein referred to as the "Restricted Shares"; and

WHEREAS, Company and Employee desire to enter into this Agreement to provide for restrictions on transfer and forfeiture of the Restricted Shares prior to the vesting of such Restricted Shares and removal of such forfeiture restrictions upon vesting of the Restricted Shares.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements set forth herein, together with other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Purchase of Restricted Shares. Concurrently with execution of this Agreement, Employee has purchased the Restricted Shares and paid the purchase price of \$0.01 per share (the "Purchase Price"). Concurrently with execution of this Agreement and payment of the Purchase Price, Employee shall also execute and deliver to Company an executed blank Stock Power of Attorney in the form attached hereto as Exhibit "A" with respect to the Restricted Shares.

2. Repurchase Right

2.1 Grant. Employee hereby grants to Company the right (the "Repurchase Right") exercisable at any time during the 180-day period following the date Employee's employment by Company is terminated for any reason, to repurchase at the Purchase Price all or any portion of the Restricted Shares in which Employee is not, at the time of his or her termination of employment, vested in accordance with the Vesting Schedule described in Section 2.3 and set forth in the form attached hereto as Exhibit "B" (such shares to be hereinafter referred to as the "Unvested Shares").

2.2 Exercise of the Repurchase Right. The Repurchase Right shall be exercisable by written notice delivered to Employee prior to the expiration of the 180-day exercise period. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than 30 days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to Company prior to the close of business on the date specified for the repurchase. Concurrently with the receipt of such stock certificates, Company shall pay to Employee, in cash or cash equivalents (including the cancellation of any purchase-money indebtedness), an amount equal to the Purchase Price previously paid for the Unvested Shares which are to be repurchased from Employee.

2.3 Termination of the Repurchase Right. The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Section 2.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to any and all Unvested Shares in which Participant vests in accordance with the Vesting Schedule set forth in Exhibit B.

Notwithstanding the foregoing, the Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right upon a “Change of Control” in connection with the Change in Control, as determined by the Company in good faith, all Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right.

2.4 Recapitalization. Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any “Recapitalization” distributed with respect to the Unvested Shares shall be immediately subject to the Repurchase Right, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of Unvested Shares subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same. For purposes of this Agreement, a “Recapitalization” shall mean any stock split, stock dividend, recapitalization, reorganization, combination of shares, exchange of shares, or other change affecting the outstanding Common Stock as a class without the Company’s receipt of consideration.

2.5 Corporate Transaction.

(a) The Repurchase Right shall be assignable by Company to any successor entity of Company in a merger or consolidation, share exchange, or sale, transfer or other disposition of all or substantially all of the Company’s assets in complete liquidation or dissolution of the Company; subject, however, to termination on the Repurchase Right in accordance with Section 2.3 if a Change of Control has occurred as a result thereof. However, to the extent the successor entity does not accept such assignment, the Repurchase Right shall lapse immediately prior to the consummation of the transaction with such successor entity.

(b) To the extent the Repurchase Right remains in effect following any such transaction, such right shall apply to the new capital stock or other property (including any cash payments) received in exchange for the Unvested Shares in consummation of such transaction, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments shall be made to the price per share payable upon exercise of the Repurchase Right to reflect the effect of such transaction upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same.

3. Delivery of Certificates. The certificates representing any Restricted Shares which are subject to the Repurchase Right shall be held in escrow in accordance with the provisions of this Agreement.

4. Shareholder Rights. Until such time as the Company exercises the Repurchase Right, Employee (or any permitted successor in interest) shall have all the rights of a shareholder (including voting, dividend and liquidation rights) with respect to the Restricted Shares, subject, however, to the transfer restrictions of Sections 5.2 and 6.

5. Securities Law Compliance.

5.1 Restricted Securities. The Shares have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), and are being issued to Employee in reliance upon the exemption from such registration provided by, among other exemptions, the nonpublic offering exemption provided by Section 4(2) of the 1933 Act and, therefore, are subject to restrictions on further transfer under the 1933 Act. Employee hereby confirms that Employee has been informed that the Shares are restricted securities under the 1933 Act and may not be resold or transferred unless the Shares are first registered under the Federal securities laws or unless an exemption from such registration is available. Accordingly, Employee hereby acknowledges that Employee is prepared to hold the Shares for an indefinite period and that Employee is aware that Rule 144 issued under the 1933 Act which exempts certain resales of unrestricted securities is not presently available to exempt the resale of the Shares from the registration requirements of the 1933 Act.

5.2 Disposition of Shares. Employee shall make no disposition of the Shares, which are not subject to the Repurchase Right, unless and until there is compliance with all of the following requirements:

(a) Employee shall have provided Company with a written summary of the terms and conditions of the proposed disposition.

(b) Employee shall have complied with all requirements of this Agreement applicable to the disposition of the Shares.

(c) Employee shall have provided Company with written assurances, in form and substance satisfactory to Company, that (i) the proposed disposition does not require registration of the Shares under the 1933 Act or (ii) all appropriate action necessary for compliance with the registration requirements of the 1933 Act or any exemption from registration available under the 1933 Act (including Rule 144) has been taken.

Company shall not be required (A) to transfer on its books any Shares which have been sold or transferred in violation of the provisions of this Agreement or (B) to treat as the owner of the Shares, or otherwise to accord voting, dividend or liquidation rights to, any transferee to whom the Shares have been transferred in contravention of this Agreement.

5.3 Restrictive Legends. The stock certificates for all the Shares shall be endorsed with the legend set forth in subsection (a) below, and the stock certificates for the Restricted Shares shall be endorsed with the legend set forth in subsection (b) below:

(a) "The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares may not be sold or offered for sale in the absence of (i) an effective registration statement for the shares under such Act, (ii) a "no action" letter of the Securities and Exchange Commission with respect to such sale or offer or (iii) satisfactory assurances to the Company that registration under such Act is not required with respect to such sale or offer."

(b) "The shares represented by this certificate are unvested and are subject to certain repurchase rights granted to the Company and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated April 19, 2002 between the Company and the registered holder of the shares (or the predecessor in interest to the shares). A copy of such agreement is maintained at the Company's principal corporate offices."

6. Additional Transfer Restrictions. Notwithstanding any other provision of this Agreement, the Employee shall not transfer, assign, encumber or otherwise dispose of any of the Restricted Shares which are subject to the Repurchase Right.

7. Escrow.

7.1 Deposit. Upon issuance, the certificates for the Restricted Shares which are subject to the Repurchase Right shall be deposited in escrow with the Company to be held in accordance with the provisions of this Section 7. Each deposited certificate shall be accompanied by a duly-executed Stock Power of Attorney in the form of Exhibit "A." The deposited certificates, together with any other assets or securities from time to time deposited with Company pursuant to the requirements of this Agreement, shall remain in escrow until such time or times as the certificates (or other assets and securities) are to be released or otherwise surrendered for cancellation in accordance with 7.3. Upon delivery of the certificates (or other assets and securities) to Company, Employee shall be issued a receipt acknowledging the number of Restricted Shares (or other assets and securities) delivered in escrow.

7.2 Recapitalization Reorganization. Any new, substituted or additional securities or other property which is by reason of any Recapitalization as contemplated under Section 2.4, distributed with respect to the Restricted Shares shall be immediately delivered to Company to be held in escrow under this Section 7, but only to the extent the Restricted Shares are at the time subject to the escrow requirements hereunder. However, all regular cash dividends on the Restricted Shares (or other securities at the time held in escrow) shall be paid directly to Employee and shall not be held in escrow.

7.3 Release/Surrender. The Restricted Shares, together with any other assets or securities held in escrow hereunder, shall be subject to the following terms relating to their release from escrow or their surrender to Company for repurchase and cancellation:

(a) Should Company elect to exercise the Repurchase Right with respect to any Unvested Shares, then the escrowed certificates for those Unvested Shares (together with any other assets or securities attributable thereto) shall be surrendered to Company concurrently with the payment to Employee of an amount equal to the aggregate Purchase Price paid for those Unvested Shares, and Employee shall cease to have any further rights or claims with respect to such Unvested Shares (or other assets or securities attributable thereto).

(b) Should Company elect not to exercise the Repurchase Right with respect to any Unvested Shares held at the time in escrow hereunder, then the escrowed certificates for those shares (together with any other assets or securities attributable thereto) shall be immediately released to Employee.

(c) As the Unvested Shares (or any other assets or securities attributable thereto) vest in accordance with the Vesting Schedule described in Section 2.3 and set forth in Exhibit "B," the certificates for those vested shares (as well as all other vested assets and securities) shall be released from escrow upon Employee's request, but not more frequently than once every six months.

(d) All Unvested Shares which vest (and any other vested assets and securities attributable thereto) shall be released within 30 days after the termination of Employee's employment with Company for any reason.

8. Special Tax Election

8.1 Section 83(b) Election. Under section 83 of the Internal Revenue Code of 1986 (the "Code"), the excess of the fair market value of the Shares on the date any forfeiture restrictions applicable to such shares lapse over the Purchase Price paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions," among other things, includes the right of Company to repurchase the Unvested Shares pursuant to the Repurchase Right. Employee may elect under section 83(b) of the Code to be taxed at the time the Shares are acquired, rather than when and as such Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within 30 days after the date of this Agreement. Regardless of whether the fair market value of the Shares on the date of this Agreement exceeds the Purchase Price paid, the election must be made to avoid adverse tax consequences in the future. **THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT "C" HERETO. EMPLOYEE UNDERSTANDS THAT FAILURE TO MAKE TO MAKE THIS FILING WITHIN THE APPLICABLE 30-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE.**

8.2 Filing Responsibility. EMPLOYEE ACKNOWLEDGES THAT IT IS EMPLOYEE'S SOLE RESPONSIBILITY, AND NOT COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF EMPLOYEE REQUESTS COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF. EMPLOYEE FURTHER ACKNOWLEDGES THAT THE COMPANY RECOMMENDS THAT EMPLOYEE CONSULT WITH A TAX PROFESSIONAL BEFORE MAKING AN ELECTION UNDER SECTION 83(b) OF THE CODE.

9. Miscellaneous

9.1 Assignment. Company may assign the Repurchase Right to any person or entity selected by the Board.

9.2 No Employment or Service Contract. Nothing in this Agreement shall confer upon Employee any right to continue in the employment of Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of Company (or any

parent or subsidiary employing or retaining Employee) or of Employee, which rights are hereby expressly reserved by each, to terminate Employee's employment with Company at any time for any reason, with or without cause.

9.3 Notices. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten days advance written notice under this paragraph to all other parties to this Agreement.

9.4 No Waiver. The failure of Company in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights that may subsequently arise under the provisions of this Agreement or any other agreement between Company and Employee. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

9.5 Cancellation of Shares. If Company shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Restricted Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and Company shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

9.6 Undertaking. Employee hereby agrees to take whatever additional action, including the furnishing of information to the Company, and execute whatever additional documents Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Employee or the Restricted Shares pursuant to the provisions of this Agreement.

9.7 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas without resort to that State's conflict-of-laws rules.

9.8 Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, Company and its successors and assigns and upon Employee, Employee's assigns and the legal representatives, heirs and legatees of Employee's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof.

9.9 Administration. The Company retains administration rights with respect to this Agreement. These rights include the discretion to (a) adopt, amend, and rescind administrative and interpretive rules and regulations relating to the Agreement; (b) construe the Agreement; and (c) delegate its duties hereunder to such agents as it may appoint from time to time.

9.10 **Taxes.** The Company may from time to time, in its discretion, require Employee to pay to the Company, the amount that the Company deems necessary to satisfy the Company's current or future obligation to withhold federal, state or local income or other taxes that Employee incurs as a result of this Agreement. With respect to any required tax withholding, Employee may (a) direct the Company to withhold from the shares of Common Stock to be issued to Employee the number of shares necessary to satisfy the Company's obligation to withhold taxes, that determination to be based on the shares' fair market value at the time as of which such determination is made; (b) deliver to the Company sufficient shares of Common Stock to satisfy the Company's tax withholding obligations, based on the shares' fair market value at the time as of which such determination is made; or (c) deliver sufficient cash to the Company to satisfy its tax withholding obligations. If Employee elects to use such a stock withholding feature, Employee must make the election at the time and in the manner that the Company prescribes. The Company may, at its sole option, deny Employee's request to satisfy withholding obligations through Common Stock instead of cash. In the event the Company subsequently determines that the aggregate fair market value of any shares of Common Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then Employee shall pay to the Company, immediately upon the Company's request, the amount of that deficiency. Determination of the Common Stock's fair market value shall be made in good faith by the Company.

9.11 **Amendments.** The Company may amend, alter, suspend, discontinue or terminate this Agreement; provided that, without the consent of Employee, no such Company action may materially and adversely affect the rights of Employee under this Agreement without Employee's consent.

9.12 **Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and the Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

9.13 **No Liability for Good Faith Determinations.** The Company and the members of the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Restricted Shares granted hereunder.

9.14 **No Guarantee of Interests.** The Board and the Company do not guarantee the Common Stock of the Company from loss or depreciation.

10. Definitions

10.1 **Board** means the Company's Board of Directors.

10.2 **Change in Control** means the event that is deemed to have occurred if: (a) the Company shall not be the surviving entity in any merger or consolidation (or survives only as a Subsidiary of an entity other than a previously wholly owned subsidiary of the Company), (b) the Company sells, leases or exchanges or agrees to sell, lease or exchange all or

substantially all of its assets to any other person or entity (other than a wholly-owned subsidiary of the Company), (c) the Company is to be dissolved and liquidated, or (d) any person or entity, including a “group” as contemplated by Section 13(d)(3) of the Exchange Act (other than any stockholder or holder of warrants or options to acquire capital stock of the Company on the date hereof), acquires or for the first time controls or is able to vote (directly or through nominees or beneficial ownership) after the date hereof (other than as the direct result of a transfer by descent or distribution of a decedent’s estate) fifty percent (50%) or more of the deemed issued and outstanding stock of the Company having power ordinarily to vote for directors of the Company (on a fully-diluted, as converted basis).

10.3 **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

10.4 **Person** means any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a trust or other entity; a Person, together with that Person’s “Affiliates” and “Associates” (as those terms are defined in Rule 12b-2 under the Exchange Act), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting or disposing of securities of the Company with such Person, shall be deemed a single “Person.”

10.5 **Subsidiary** means with respect to any Person, any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first indicated above.

COMPANY:

MONITRONICS INTERNATIONAL, INC.

By: _____ /s/ James R. Hull

Name: James R. Hull
Title: President and CEO

EMPLOYEE:

By: _____ /s/ Robert Sherman

Name: Robert Sherman

EXHIBIT B
VESTING SCHEDULE

- 20% shall vest on the date of this Agreement
- 20% shall vest on the first anniversary of the date of this Agreement
- 20% shall vest of the second anniversary of the date hereof
- 20% shall vest of the third anniversary of the date hereof
- 20% shall vest of the fourth anniversary of the date hereof

RESTRICTED STOCK OWNERSHIP AGREEMENT

This **RESTRICTED STOCK OWNERSHIP AGREEMENT** (the "Agreement") is made as of April 19, 2002, by and between Monitronics International, Inc., a Texas corporation (the "Company"), and Ricky L. Hudson, an employee of the Company (the "Employee").

WHEREAS, pursuant to this Agreement, the Company desires to transfer to the Employee 16,304 shares (the "Shares") of the Company's Class A Common Stock, \$0.01 par value, per share (the "Common Stock") which shares shall be subject to certain restrictions as set forth herein and shall be herein referred to as the "Restricted Shares"; and

WHEREAS, Company and Employee desire to enter into this Agreement to provide for restrictions on transfer and forfeiture of the Restricted Shares prior to the vesting of such Restricted Shares and removal of such forfeiture restrictions upon vesting of the Restricted Shares.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements set forth herein, together with other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Purchase of Restricted Shares.** Concurrently with execution of this Agreement, Employee has purchased the Restricted Shares and paid the purchase price of \$0.01 per share (the "Purchase Price"). Concurrently with execution of this Agreement and payment of the Purchase Price, Employee shall also execute and deliver to Company an executed blank Stock Power of Attorney in the form attached hereto as Exhibit "A" with respect to the Restricted Shares.

2. Repurchase Right

2.1 Grant. Employee hereby grants to Company the right (the "Repurchase Right") exercisable at any time during the 180-day period following the date Employee's employment by Company is terminated for any reason, to repurchase at the Purchase Price all or any portion of the Restricted Shares in which Employee is not, at the time of his or her termination of employment, vested in accordance with the Vesting Schedule described in Section 2.3 and set forth in the form attached hereto as Exhibit "B" (such shares to be hereinafter referred to as the "Unvested Shares").

2.2 Exercise of the Repurchase Right. The Repurchase Right shall be exercisable by written notice delivered to Employee prior to the expiration of the 180-day exercise period. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than 30 days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to Company prior to the close of business on the date specified for the repurchase. Concurrently with the receipt of such stock certificates, Company shall pay to Employee, in cash or cash equivalents (including the cancellation of any purchase-money indebtedness), an amount equal to the Purchase Price previously paid for the Unvested Shares which are to be repurchased from Employee.

2.3 Termination of the Repurchase Right. The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Section 2.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to any and all Unvested Shares in which Participant vests in accordance with the Vesting Schedule set forth in Exhibit B.

Notwithstanding the foregoing, the Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right upon a “Change of Control” in connection with the Change in Control, as determined by the Company in good faith, all Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right.

2.4 Recapitalization. Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any “Recapitalization” distributed with respect to the Unvested Shares shall be immediately subject to the Repurchase Right, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of Unvested Shares subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same. For purposes of this Agreement, a “Recapitalization” shall mean any stock split, stock dividend, recapitalization, reorganization, combination of shares, exchange of shares, or other change affecting the outstanding Common Stock as a class without the Company’s receipt of consideration.

2.5 Corporate Transaction.

(a) The Repurchase Right shall be assignable by Company to any successor entity of Company in a merger or consolidation, share exchange, or sale, transfer or other disposition of all or substantially all of the Company’s assets in complete liquidation or dissolution of the Company; subject, however, to termination on the Repurchase Right in accordance with Section 2.3 if a Change of Control has occurred as a result thereof. However, to the extent the successor entity does not accept such assignment, the Repurchase Right shall lapse immediately prior to the consummation of the transaction with such successor entity.

(b) To the extent the Repurchase Right remains in effect following any such transaction, such right shall apply to the new capital stock or other property (including any cash payments) received in exchange for the Unvested Shares in consummation of such transaction, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments shall be made to the price per share payable upon exercise of the Repurchase Right to reflect the effect of such transaction upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same.

3. Delivery of Certificates. The certificates representing any Restricted Shares which are subject to the Repurchase Right shall be held in escrow in accordance with the provisions of this Agreement.

4. Shareholder Rights. Until such time as the Company exercises the Repurchase Right, Employee (or any permitted successor in interest) shall have all the rights of a shareholder (including voting, dividend and liquidation rights) with respect to the Restricted Shares, subject, however, to the transfer restrictions of Sections 5.2 and 6.

5. Securities Law Compliance.

5.1 Restricted Securities. The Shares have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), and are being issued to Employee in reliance upon the exemption from such registration provided by, among other exemptions, the nonpublic offering exemption provided by Section 4(2) of the 1933 Act and, therefore, are subject to restrictions on further transfer under the 1933 Act. Employee hereby confirms that Employee has been informed that the Shares are restricted securities under the 1933 Act and may not be resold or transferred unless the Shares are first registered under the Federal securities laws or unless an exemption from such registration is available. Accordingly, Employee hereby acknowledges that Employee is prepared to hold the Shares for an indefinite period and that Employee is aware that Rule 144 issued under the 1933 Act which exempts certain resales of unrestricted securities is not presently available to exempt the resale of the Shares from the registration requirements of the 1933 Act.

5.2 Disposition of Shares. Employee shall make no disposition of the Shares, which are not subject to the Repurchase Right, unless and until there is compliance with all of the following requirements:

(a) Employee shall have provided Company with a written summary of the terms and conditions of the proposed disposition.

(b) Employee shall have complied with all requirements of this Agreement applicable to the disposition of the Shares.

(c) Employee shall have provided Company with written assurances, in form and substance satisfactory to Company, that (i) the proposed disposition does not require registration of the Shares under the 1933 Act or (ii) all appropriate action necessary for compliance with the registration requirements of the 1933 Act or any exemption from registration available under the 1933 Act (including Rule 144) has been taken.

Company shall not be required (A) to transfer on its books any Shares which have been sold or transferred in violation of the provisions of this Agreement or (B) to treat as the owner of the Shares, or otherwise to accord voting, dividend or liquidation rights to, any transferee to whom the Shares have been transferred in contravention of this Agreement.

5.3 Restrictive Legends. The stock certificates for all the Shares shall be endorsed with the legend set forth in subsection (a) below, and the stock certificates for the Restricted Shares shall be endorsed with the legend set forth in subsection (b) below:

(a) "The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares may not be sold or offered for sale in the absence of (i) an effective registration statement for the shares under such Act, (ii) a "no action" letter of the Securities and Exchange Commission with respect to such sale or offer or (iii) satisfactory assurances to the Company that registration under such Act is not required with respect to such sale or offer."

(b) "The shares represented by this certificate are unvested and are subject to certain repurchase rights granted to the Company and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated April 19, 2002 between the Company and the registered holder of the shares (or the predecessor in interest to the shares). A copy of such agreement is maintained at the Company's principal corporate offices."

6. Additional Transfer Restrictions. Notwithstanding any other provision of this Agreement, the Employee shall not transfer, assign, encumber or otherwise dispose of any of the Restricted Shares which are subject to the Repurchase Right.

7. Escrow.

7.1 Deposit. Upon issuance, the certificates for the Restricted Shares which are subject to the Repurchase Right shall be deposited in escrow with the Company to be held in accordance with the provisions of this Section 7. Each deposited certificate shall be accompanied by a duly-executed Stock Power of Attorney in the form of Exhibit "A." The deposited certificates, together with any other assets or securities from time to time deposited with Company pursuant to the requirements of this Agreement, shall remain in escrow until such time or times as the certificates (or other assets and securities) are to be released or otherwise surrendered for cancellation in accordance with 7.3. Upon delivery of the certificates (or other assets and securities) to Company, Employee shall be issued a receipt acknowledging the number of Restricted Shares (or other assets and securities) delivered in escrow.

7.2 Recapitalization Reorganization. Any new, substituted or additional securities or other property which is by reason of any Recapitalization as contemplated under Section 2.4, distributed with respect to the Restricted Shares shall be immediately delivered to Company to be held in escrow under this Section 7, but only to the extent the Restricted Shares are at the time subject to the escrow requirements hereunder. However, all regular cash dividends on the Restricted Shares (or other securities at the time held in escrow) shall be paid directly to Employee and shall not be held in escrow.

7.3 Release/Surrender. The Restricted Shares, together with any other assets or securities held in escrow hereunder, shall be subject to the following terms relating to their release from escrow or their surrender to Company for repurchase and cancellation:

(a) Should Company elect to exercise the Repurchase Right with respect to any Unvested Shares, then the escrowed certificates for those Unvested Shares (together with any other assets or securities attributable thereto) shall be surrendered to Company concurrently with the payment to Employee of an amount equal to the aggregate Purchase Price paid for those Unvested Shares, and Employee shall cease to have any further rights or claims with respect to such Unvested Shares (or other assets or securities attributable thereto).

(b) Should Company elect not to exercise the Repurchase Right with respect to any Unvested Shares held at the time in escrow hereunder, then the escrowed certificates for those shares (together with any other assets or securities attributable thereto) shall be immediately released to Employee.

(c) As the Unvested Shares (or any other assets or securities attributable thereto) vest in accordance with the Vesting Schedule described in Section 2.3 and set forth in Exhibit "B," the certificates for those vested shares (as well as all other vested assets and securities) shall be released from escrow upon Employee's request, but not more frequently than once every six months.

(d) All Unvested Shares which vest (and any other vested assets and securities attributable thereto) shall be released within 30 days after the termination of Employee's employment with Company for any reason.

8. Special Tax Election

8.1 Section 83(b) Election. Under section 83 of the Internal Revenue Code of 1986 (the "Code"), the excess of the fair market value of the Shares on the date any forfeiture restrictions applicable to such shares lapse over the Purchase Price paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions," among other things, includes the right of Company to repurchase the Unvested Shares pursuant to the Repurchase Right. Employee may elect under section 83(b) of the Code to be taxed at the time the Shares are acquired, rather than when and as such Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within 30 days after the date of this Agreement. Regardless of whether the fair market value of the Shares on the date of this Agreement exceeds the Purchase Price paid, the election must be made to avoid adverse tax consequences in the future. **THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT "C" HERETO. EMPLOYEE UNDERSTANDS THAT FAILURE TO MAKE TO MAKE THIS FILING WITHIN THE APPLICABLE 30-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE.**

8.2 Filing Responsibility. EMPLOYEE ACKNOWLEDGES THAT IT IS EMPLOYEE'S SOLE RESPONSIBILITY, AND NOT COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF EMPLOYEE REQUESTS COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF. EMPLOYEE FURTHER ACKNOWLEDGES THAT THE COMPANY RECOMMENDS THAT EMPLOYEE CONSULT WITH A TAX PROFESSIONAL BEFORE MAKING AN ELECTION UNDER SECTION 83(b) OF THE CODE.

9. Miscellaneous

9.1 Assignment. Company may assign the Repurchase Right to any person or entity selected by the Board.

9.2 No Employment or Service Contract. Nothing in this Agreement shall confer upon Employee any right to continue in the employment of Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of Company (or any

parent or subsidiary employing or retaining Employee) or of Employee, which rights are hereby expressly reserved by each, to terminate Employee's employment with Company at any time for any reason, with or without cause.

9.3 Notices. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten days advance written notice under this paragraph to all other parties to this Agreement.

9.4 No Waiver. The failure of Company in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights that may subsequently arise under the provisions of this Agreement or any other agreement between Company and Employee. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

9.5 Cancellation of Shares. If Company shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Restricted Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and Company shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

9.6 Undertaking. Employee hereby agrees to take whatever additional action, including the furnishing of information to the Company, and execute whatever additional documents Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Employee or the Restricted Shares pursuant to the provisions of this Agreement.

9.7 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas without resort to that State's conflict-of-laws rules.

9.8 Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, Company and its successors and assigns and upon Employee, Employee's assigns and the legal representatives, heirs and legatees of Employee's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof.

9.9 Administration. The Company retains administration rights with respect to this Agreement. These rights include the discretion to (a) adopt, amend, and rescind administrative and interpretive rules and regulations relating to the Agreement; (b) construe the Agreement; and (c) delegate its duties hereunder to such agents as it may appoint from time to time.

9.10 **Taxes.** The Company may from time to time, in its discretion, require Employee to pay to the Company, the amount that the Company deems necessary to satisfy the Company's current or future obligation to withhold federal, state or local income or other taxes that Employee incurs as a result of this Agreement. With respect to any required tax withholding, Employee may (a) direct the Company to withhold from the shares of Common Stock to be issued to Employee the number of shares necessary to satisfy the Company's obligation to withhold taxes, that determination to be based on the shares' fair market value at the time as of which such determination is made; (b) deliver to the Company sufficient shares of Common Stock to satisfy the Company's tax withholding obligations, based on the shares' fair market value at the time as of which such determination is made; or (c) deliver sufficient cash to the Company to satisfy its tax withholding obligations. If Employee elects to use such a stock withholding feature, Employee must make the election at the time and in the manner that the Company prescribes. The Company may, at its sole option, deny Employee's request to satisfy withholding obligations through Common Stock instead of cash. In the event the Company subsequently determines that the aggregate fair market value of any shares of Common Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then Employee shall pay to the Company, immediately upon the Company's request, the amount of that deficiency. Determination of the Common Stock's fair market value shall be made in good faith by the Company.

9.11 **Amendments.** The Company may amend, alter, suspend, discontinue or terminate this Agreement; provided that, without the consent of Employee, no such Company action may materially and adversely affect the rights of Employee under this Agreement without Employee's consent.

9.12 **Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and the Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

9.13 **No Liability for Good Faith Determinations.** The Company and the members of the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Restricted Shares granted hereunder.

9.14 **No Guarantee of Interests.** The Board and the Company do not guarantee the Common Stock of the Company from loss or depreciation.

10. Definitions

10.1 **Board** means the Company's Board of Directors.

10.2 **Change in Control** means the event that is deemed to have occurred if: (a) the Company shall not be the surviving entity in any merger or consolidation (or survives only as a Subsidiary of an entity other than a previously wholly owned subsidiary of the Company), (b) the Company sells, leases or exchanges or agrees to sell, lease or exchange all or

substantially all of its assets to any other person or entity (other than a wholly-owned subsidiary of the Company), (c) the Company is to be dissolved and liquidated, or (d) any person or entity, including a “group” as contemplated by Section 13(d)(3) of the Exchange Act (other than any stockholder or holder of warrants or options to acquire capital stock of the Company on the date hereof), acquires or for the first time controls or is able to vote (directly or through nominees or beneficial ownership) after the date hereof (other than as the direct result of a transfer by descent or distribution of a decedent’s estate) fifty percent (50%) or more of the deemed issued and outstanding stock of the Company having power ordinarily to vote for directors of the Company (on a fully-diluted, as converted basis).

10.3 **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

10.4 **Person** means any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a trust or other entity; a Person, together with that Person’s “Affiliates” and “Associates” (as those terms are defined in Rule 12b-2 under the Exchange Act), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting or disposing of securities of the Company with such Person, shall be deemed a single “Person.”

10.5 **Subsidiary** means with respect to any Person, any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first indicated above.

COMPANY:

MONITRONICS INTERNATIONAL, INC.

By: _____ /s/ James R. Hull

Name: James R. Hull
Title: President and CEO

EMPLOYEE:

By: _____ /s/ Ricky L. Hudson

Name: Ricky L. Hudson

EXHIBIT B
VESTING SCHEDULE

- 20% shall vest on the date of this Agreement
- 20% shall vest on the first anniversary of the date of this Agreement
- 20% shall vest of the second anniversary of the date hereof
- 20% shall vest of the third anniversary of the date hereof
- 20% shall vest of the fourth anniversary of the date hereof

RESTRICTED STOCK OWNERSHIP AGREEMENT

This **RESTRICTED STOCK OWNERSHIP AGREEMENT** (the "Agreement") is made as of April 19, 2002, by and between Monitronics International, Inc., a Texas corporation (the "Company"), and Stephen Hedrick, an employee of the Company (the "Employee").

WHEREAS, pursuant to this Agreement, the Company desires to transfer to the Employee 22,435 shares (the "Shares") of the Company's Class A Common Stock, \$0.01 par value, per share (the "Common Stock") which shares shall be subject to certain restrictions as set forth herein and shall be herein referred to as the "Restricted Shares"; and

WHEREAS, Company and Employee desire to enter into this Agreement to provide for restrictions on transfer and forfeiture of the Restricted Shares prior to the vesting of such Restricted Shares and removal of such forfeiture restrictions upon vesting of the Restricted Shares.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements set forth herein, together with other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Purchase of Restricted Shares. Concurrently with execution of this Agreement, Employee has purchased the Restricted Shares and paid the purchase price of \$0.01 per share (the "Purchase Price"). Concurrently with execution of this Agreement and payment of the Purchase Price, Employee shall also execute and deliver to Company an executed blank Stock Power of Attorney in the form attached hereto as Exhibit "A" with respect to the Restricted Shares.

2. Repurchase Right

2.1 Grant. Employee hereby grants to Company the right (the "Repurchase Right") exercisable at any time during the 180-day period following the date Employee's employment by Company is terminated for any reason, to repurchase at the Purchase Price all or any portion of the Restricted Shares in which Employee is not, at the time of his or her termination of employment, vested in accordance with the Vesting Schedule described in Section 2.3 and set forth in the form attached hereto as Exhibit "B" (such shares to be hereinafter referred to as the "Unvested Shares").

2.2 Exercise of the Repurchase Right. The Repurchase Right shall be exercisable by written notice delivered to Employee prior to the expiration of the 180-day exercise period. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than 30 days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to Company prior to the close of business on the date specified for the repurchase. Concurrently with the receipt of such stock certificates, Company shall pay to Employee, in cash or cash equivalents (including the cancellation of any purchase-money indebtedness), an amount equal to the Purchase Price previously paid for the Unvested Shares which are to be repurchased from Employee.

2.3 Termination of the Repurchase Right. The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Section 2.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to any and all Unvested Shares in which Participant vests in accordance with the Vesting Schedule set forth in Exhibit B.

Notwithstanding the foregoing, the Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right upon a “Change of Control” in connection with the Change in Control, as determined by the Company in good faith, all Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right.

2.4 Recapitalization. Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any “Recapitalization” distributed with respect to the Unvested Shares shall be immediately subject to the Repurchase Right, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of Unvested Shares subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same. For purposes of this Agreement, a “Recapitalization” shall mean any stock split, stock dividend, recapitalization, reorganization, combination of shares, exchange of shares, or other change affecting the outstanding Common Stock as a class without the Company’s receipt of consideration.

2.5 Corporate Transaction.

(a) The Repurchase Right shall be assignable by Company to any successor entity of Company in a merger or consolidation, share exchange, or sale, transfer or other disposition of all or substantially all of the Company’s assets in complete liquidation or dissolution of the Company; subject, however, to termination on the Repurchase Right in accordance with Section 2.3 if a Change of Control has occurred as a result thereof. However, to the extent the successor entity does not accept such assignment, the Repurchase Right shall lapse immediately prior to the consummation of the transaction with such successor entity.

(b) To the extent the Repurchase Right remains in effect following any such transaction, such right shall apply to the new capital stock or other property (including any cash payments) received in exchange for the Unvested Shares in consummation of such transaction, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments shall be made to the price per share payable upon exercise of the Repurchase Right to reflect the effect of such transaction upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same.

3. Delivery of Certificates. The certificates representing any Restricted Shares which are subject to the Repurchase Right shall be held in escrow in accordance with the provisions of this Agreement.

4. Shareholder Rights. Until such time as the Company exercises the Repurchase Right, Employee (or any permitted successor in interest) shall have all the rights of a shareholder (including voting, dividend and liquidation rights) with respect to the Restricted Shares, subject, however, to the transfer restrictions of Sections 5.2 and 6.

5. Securities Law Compliance.

5.1 Restricted Securities. The Shares have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), and are being issued to Employee in reliance upon the exemption from such registration provided by, among other exemptions, the nonpublic offering exemption provided by Section 4(2) of the 1933 Act and, therefore, are subject to restrictions on further transfer under the 1933 Act. Employee hereby confirms that Employee has been informed that the Shares are restricted securities under the 1933 Act and may not be resold or transferred unless the Shares are first registered under the Federal securities laws or unless an exemption from such registration is available. Accordingly, Employee hereby acknowledges that Employee is prepared to hold the Shares for an indefinite period and that Employee is aware that Rule 144 issued under the 1933 Act which exempts certain resales of unrestricted securities is not presently available to exempt the resale of the Shares from the registration requirements of the 1933 Act.

5.2 Disposition of Shares. Employee shall make no disposition of the Shares, which are not subject to the Repurchase Right, unless and until there is compliance with all of the following requirements:

(a) Employee shall have provided Company with a written summary of the terms and conditions of the proposed disposition.

(b) Employee shall have complied with all requirements of this Agreement applicable to the disposition of the Shares.

(c) Employee shall have provided Company with written assurances, in form and substance satisfactory to Company, that (i) the proposed disposition does not require registration of the Shares under the 1933 Act or (ii) all appropriate action necessary for compliance with the registration requirements of the 1933 Act or any exemption from registration available under the 1933 Act (including Rule 144) has been taken.

Company shall not be required (A) to transfer on its books any Shares which have been sold or transferred in violation of the provisions of this Agreement or (B) to treat as the owner of the Shares, or otherwise to accord voting, dividend or liquidation rights to, any transferee to whom the Shares have been transferred in contravention of this Agreement.

5.3 Restrictive Legends. The stock certificates for all the Shares shall be endorsed with the legend set forth in subsection (a) below, and the stock certificates for the Restricted Shares shall be endorsed with the legend set forth in subsection (b) below:

(a) "The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares may not be sold or offered for sale in the absence of (i) an effective registration statement for the shares under such Act, (ii) a "no action" letter of the Securities and Exchange Commission with respect to such sale or offer or (iii) satisfactory assurances to the Company that registration under such Act is not required with respect to such sale or offer."

(b) "The shares represented by this certificate are unvested and are subject to certain repurchase rights granted to the Company and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated April 19, 2002 between the Company and the registered holder of the shares (or the predecessor in interest to the shares). A copy of such agreement is maintained at the Company's principal corporate offices."

6. Additional Transfer Restrictions. Notwithstanding any other provision of this Agreement, the Employee shall not transfer, assign, encumber or otherwise dispose of any of the Restricted Shares which are subject to the Repurchase Right.

7. Escrow.

7.1 Deposit. Upon issuance, the certificates for the Restricted Shares which are subject to the Repurchase Right shall be deposited in escrow with the Company to be held in accordance with the provisions of this Section 7. Each deposited certificate shall be accompanied by a duly-executed Stock Power of Attorney in the form of Exhibit "A." The deposited certificates, together with any other assets or securities from time to time deposited with Company pursuant to the requirements of this Agreement, shall remain in escrow until such time or times as the certificates (or other assets and securities) are to be released or otherwise surrendered for cancellation in accordance with 7.3. Upon delivery of the certificates (or other assets and securities) to Company, Employee shall be issued a receipt acknowledging the number of Restricted Shares (or other assets and securities) delivered in escrow.

7.2 Recapitalization Reorganization. Any new, substituted or additional securities or other property which is by reason of any Recapitalization as contemplated under Section 2.4, distributed with respect to the Restricted Shares shall be immediately delivered to Company to be held in escrow under this Section 7, but only to the extent the Restricted Shares are at the time subject to the escrow requirements hereunder. However, all regular cash dividends on the Restricted Shares (or other securities at the time held in escrow) shall be paid directly to Employee and shall not be held in escrow.

7.3 Release/Surrender. The Restricted Shares, together with any other assets or securities held in escrow hereunder, shall be subject to the following terms relating to their release from escrow or their surrender to Company for repurchase and cancellation:

(a) Should Company elect to exercise the Repurchase Right with respect to any Unvested Shares, then the escrowed certificates for those Unvested Shares (together with any other assets or securities attributable thereto) shall be surrendered to Company concurrently with the payment to Employee of an amount equal to the aggregate Purchase Price paid for those Unvested Shares, and Employee shall cease to have any further rights or claims with respect to such Unvested Shares (or other assets or securities attributable thereto).

(b) Should Company elect not to exercise the Repurchase Right with respect to any Unvested Shares held at the time in escrow hereunder, then the escrowed certificates for those shares (together with any other assets or securities attributable thereto) shall be immediately released to Employee.

(c) As the Unvested Shares (or any other assets or securities attributable thereto) vest in accordance with the Vesting Schedule described in Section 2.3 and set forth in Exhibit "B," the certificates for those vested shares (as well as all other vested assets and securities) shall be released from escrow upon Employee's request, but not more frequently than once every six months.

(d) All Unvested Shares which vest (and any other vested assets and securities attributable thereto) shall be released within 30 days after the termination of Employee's employment with Company for any reason.

8. Special Tax Election

8.1 Section 83(b) Election. Under section 83 of the Internal Revenue Code of 1986 (the "Code"), the excess of the fair market value of the Shares on the date any forfeiture restrictions applicable to such shares lapse over the Purchase Price paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions," among other things, includes the right of Company to repurchase the Unvested Shares pursuant to the Repurchase Right. Employee may elect under section 83(b) of the Code to be taxed at the time the Shares are acquired, rather than when and as such Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within 30 days after the date of this Agreement. Regardless of whether the fair market value of the Shares on the date of this Agreement exceeds the Purchase Price paid, the election must be made to avoid adverse tax consequences in the future. **THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT "C" HERETO. EMPLOYEE UNDERSTANDS THAT FAILURE TO MAKE TO MAKE THIS FILING WITHIN THE APPLICABLE 30-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE.**

8.2 Filing Responsibility. EMPLOYEE ACKNOWLEDGES THAT IT IS EMPLOYEE'S SOLE RESPONSIBILITY, AND NOT COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF EMPLOYEE REQUESTS COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF. EMPLOYEE FURTHER ACKNOWLEDGES THAT THE COMPANY RECOMMENDS THAT EMPLOYEE CONSULT WITH A TAX PROFESSIONAL BEFORE MAKING AN ELECTION UNDER SECTION 83(b) OF THE CODE.

9. Miscellaneous

9.1 Assignment. Company may assign the Repurchase Right to any person or entity selected by the Board.

9.2 No Employment or Service Contract. Nothing in this Agreement shall confer upon Employee any right to continue in the employment of Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of Company (or any

parent or subsidiary employing or retaining Employee) or of Employee, which rights are hereby expressly reserved by each, to terminate Employee's employment with Company at any time for any reason, with or without cause.

9.3 Notices. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten days advance written notice under this paragraph to all other parties to this Agreement.

9.4 No Waiver. The failure of Company in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights that may subsequently arise under the provisions of this Agreement or any other agreement between Company and Employee. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

9.5 Cancellation of Shares. If Company shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Restricted Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and Company shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

9.6 Undertaking. Employee hereby agrees to take whatever additional action, including the furnishing of information to the Company, and execute whatever additional documents Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Employee or the Restricted Shares pursuant to the provisions of this Agreement.

9.7 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas without resort to that State's conflict-of-laws rules.

9.8 Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, Company and its successors and assigns and upon Employee, Employee's assigns and the legal representatives, heirs and legatees of Employee's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof.

9.9 Administration. The Company retains administration rights with respect to this Agreement. These rights include the discretion to (a) adopt, amend, and rescind administrative and interpretive rules and regulations relating to the Agreement; (b) construe the Agreement; and (c) delegate its duties hereunder to such agents as it may appoint from time to time.

9.10 **Taxes.** The Company may from time to time, in its discretion, require Employee to pay to the Company, the amount that the Company deems necessary to satisfy the Company's current or future obligation to withhold federal, state or local income or other taxes that Employee incurs as a result of this Agreement. With respect to any required tax withholding, Employee may (a) direct the Company to withhold from the shares of Common Stock to be issued to Employee the number of shares necessary to satisfy the Company's obligation to withhold taxes, that determination to be based on the shares' fair market value at the time as of which such determination is made; (b) deliver to the Company sufficient shares of Common Stock to satisfy the Company's tax withholding obligations, based on the shares' fair market value at the time as of which such determination is made; or (c) deliver sufficient cash to the Company to satisfy its tax withholding obligations. If Employee elects to use such a stock withholding feature, Employee must make the election at the time and in the manner that the Company prescribes. The Company may, at its sole option, deny Employee's request to satisfy withholding obligations through Common Stock instead of cash. In the event the Company subsequently determines that the aggregate fair market value of any shares of Common Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then Employee shall pay to the Company, immediately upon the Company's request, the amount of that deficiency. Determination of the Common Stock's fair market value shall be made in good faith by the Company.

9.11 **Amendments.** The Company may amend, alter, suspend, discontinue or terminate this Agreement; provided that, without the consent of Employee, no such Company action may materially and adversely affect the rights of Employee under this Agreement without Employee's consent.

9.12 **Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and the Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

9.13 **No Liability for Good Faith Determinations.** The Company and the members of the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Restricted Shares granted hereunder.

9.14 **No Guarantee of Interests.** The Board and the Company do not guarantee the Common Stock of the Company from loss or depreciation.

10. Definitions

10.1 **Board** means the Company's Board of Directors.

10.2 **Change in Control** means the event that is deemed to have occurred if: (a) the Company shall not be the surviving entity in any merger or consolidation (or survives only as a Subsidiary of an entity other than a previously wholly owned subsidiary of the Company), (b) the Company sells, leases or exchanges or agrees to sell, lease or exchange all or

substantially all of its assets to any other person or entity (other than a wholly-owned subsidiary of the Company), (c) the Company is to be dissolved and liquidated, or (d) any person or entity, including a “group” as contemplated by Section 13(d)(3) of the Exchange Act (other than any stockholder or holder of warrants or options to acquire capital stock of the Company on the date hereof), acquires or for the first time controls or is able to vote (directly or through nominees or beneficial ownership) after the date hereof (other than as the direct result of a transfer by descent or distribution of a decedent’s estate) fifty percent (50%) or more of the deemed issued and outstanding stock of the Company having power ordinarily to vote for directors of the Company (on a fully-diluted, as converted basis).

10.3 **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

10.4 **Person** means any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a trust or other entity; a Person, together with that Person’s “Affiliates” and “Associates” (as those terms are defined in Rule 12b-2 under the Exchange Act), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting or disposing of securities of the Company with such Person, shall be deemed a single “Person.”

10.5 **Subsidiary** means with respect to any Person, any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first indicated above.

COMPANY:

MONITRONICS INTERNATIONAL, INC.

By: _____ /s/ James R. Hull

Name: James R. Hull
Title: President and CEO

EMPLOYEE:

By: _____ /s/ Stephen Hedrick

Name: Stephen Hedrick

EXHIBIT B
VESTING SCHEDULE

- 20% shall vest on the date of this Agreement
- 20% shall vest on the first anniversary of the date of this Agreement
- 20% shall vest of the second anniversary of the date hereof
- 20% shall vest of the third anniversary of the date hereof
- 20% shall vest of the fourth anniversary of the date hereof

RESTRICTED STOCK OWNERSHIP AGREEMENT

This **RESTRICTED STOCK OWNERSHIP AGREEMENT** (the "Agreement") is made as of April 19, 2002, by and between Monitronics International, Inc., a Texas corporation (the "Company"), and Barry Johnson, an employee of the Company (the "Employee").

WHEREAS, pursuant to this Agreement, the Company desires to transfer to the Employee 6,799 shares (the "Shares") of the Company's Class A Common Stock, \$0.01 par value, per share (the "Common Stock") which shares shall be subject to certain restrictions as set forth herein and shall be herein referred to as the "Restricted Shares"; and

WHEREAS, Company and Employee desire to enter into this Agreement to provide for restrictions on transfer and forfeiture of the Restricted Shares prior to the vesting of such Restricted Shares and removal of such forfeiture restrictions upon vesting of the Restricted Shares.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants and agreements set forth herein, together with other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Purchase of Restricted Shares.** Concurrently with execution of this Agreement, Employee has purchased the Restricted Shares and paid the purchase price of \$0.01 per share (the "Purchase Price"). Concurrently with execution of this Agreement and payment of the Purchase Price, Employee shall also execute and deliver to Company an executed blank Stock Power of Attorney in the form attached hereto as Exhibit "A" with respect to the Restricted Shares.

2. Repurchase Right

2.1 Grant. Employee hereby grants to Company the right (the "Repurchase Right") exercisable at any time during the 180-day period following the date Employee's employment by Company is terminated for any reason, to repurchase at the Purchase Price all or any portion of the Restricted Shares in which Employee is not, at the time of his or her termination of employment, vested in accordance with the Vesting Schedule described in Section 2.3 and set forth in the form attached hereto as Exhibit "B" (such shares to be hereinafter referred to as the "Unvested Shares").

2.2 Exercise of the Repurchase Right. The Repurchase Right shall be exercisable by written notice delivered to Employee prior to the expiration of the 180-day exercise period. The notice shall indicate the number of Unvested Shares to be repurchased and the date on which the repurchase is to be effected, such date to be not more than 30 days after the date of such notice. The certificates representing the Unvested Shares to be repurchased shall be delivered to Company prior to the close of business on the date specified for the repurchase. Concurrently with the receipt of such stock certificates, Company shall pay to Employee, in cash or cash equivalents (including the cancellation of any purchase-money indebtedness), an amount equal to the Purchase Price previously paid for the Unvested Shares which are to be repurchased from Employee.

2.3 Termination of the Repurchase Right. The Repurchase Right shall terminate with respect to any Unvested Shares for which it is not timely exercised under Section 2.2. In addition, the Repurchase Right shall terminate and cease to be exercisable with respect to any and all Unvested Shares in which Participant vests in accordance with the Vesting Schedule set forth in Exhibit B.

Notwithstanding the foregoing, the Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right upon a “Change of Control” in connection with the Change in Control, as determined by the Company in good faith, all Unvested Shares shall become fully vested and shall no longer be subject to the Repurchase Right.

2.4 Recapitalization. Any new, substituted or additional securities or other property (including cash paid other than as a regular cash dividend) which is by reason of any “Recapitalization” distributed with respect to the Unvested Shares shall be immediately subject to the Repurchase Right, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments to reflect such distribution shall be made to the number and/or class of Unvested Shares subject to this Agreement and to the price per share to be paid upon the exercise of the Repurchase Right in order to reflect the effect of any such Recapitalization upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same. For purposes of this Agreement, a “Recapitalization” shall mean any stock split, stock dividend, recapitalization, reorganization, combination of shares, exchange of shares, or other change affecting the outstanding Common Stock as a class without the Company’s receipt of consideration.

2.5 Corporate Transaction.

(a) The Repurchase Right shall be assignable by Company to any successor entity of Company in a merger or consolidation, share exchange, or sale, transfer or other disposition of all or substantially all of the Company’s assets in complete liquidation or dissolution of the Company; subject, however, to termination on the Repurchase Right in accordance with Section 2.3 if a Change of Control has occurred as a result thereof. However, to the extent the successor entity does not accept such assignment, the Repurchase Right shall lapse immediately prior to the consummation of the transaction with such successor entity.

(b) To the extent the Repurchase Right remains in effect following any such transaction, such right shall apply to the new capital stock or other property (including any cash payments) received in exchange for the Unvested Shares in consummation of such transaction, but only to the extent the Unvested Shares are at the time covered by such right. Appropriate adjustments shall be made to the price per share payable upon exercise of the Repurchase Right to reflect the effect of such transaction upon Company’s capital structure; provided, however, that the aggregate purchase price shall remain the same.

3. Delivery of Certificates. The certificates representing any Restricted Shares which are subject to the Repurchase Right shall be held in escrow in accordance with the provisions of this Agreement.

4. Shareholder Rights. Until such time as the Company exercises the Repurchase Right, Employee (or any permitted successor in interest) shall have all the rights of a shareholder (including voting, dividend and liquidation rights) with respect to the Restricted Shares, subject, however, to the transfer restrictions of Sections 5.2 and 6.

5. Securities Law Compliance.

5.1 Restricted Securities. The Shares have not been registered under the Securities Act of 1933, as amended (the "1933 Act"), and are being issued to Employee in reliance upon the exemption from such registration provided by, among other exemptions, the nonpublic offering exemption provided by Section 4(2) of the 1933 Act and, therefore, are subject to restrictions on further transfer under the 1933 Act. Employee hereby confirms that Employee has been informed that the Shares are restricted securities under the 1933 Act and may not be resold or transferred unless the Shares are first registered under the Federal securities laws or unless an exemption from such registration is available. Accordingly, Employee hereby acknowledges that Employee is prepared to hold the Shares for an indefinite period and that Employee is aware that Rule 144 issued under the 1933 Act which exempts certain resales of unrestricted securities is not presently available to exempt the resale of the Shares from the registration requirements of the 1933 Act.

5.2 Disposition of Shares. Employee shall make no disposition of the Shares, which are not subject to the Repurchase Right, unless and until there is compliance with all of the following requirements:

(a) Employee shall have provided Company with a written summary of the terms and conditions of the proposed disposition.

(b) Employee shall have complied with all requirements of this Agreement applicable to the disposition of the Shares.

(c) Employee shall have provided Company with written assurances, in form and substance satisfactory to Company, that (i) the proposed disposition does not require registration of the Shares under the 1933 Act or (ii) all appropriate action necessary for compliance with the registration requirements of the 1933 Act or any exemption from registration available under the 1933 Act (including Rule 144) has been taken.

Company shall not be required (A) to transfer on its books any Shares which have been sold or transferred in violation of the provisions of this Agreement or (B) to treat as the owner of the Shares, or otherwise to accord voting, dividend or liquidation rights to, any transferee to whom the Shares have been transferred in contravention of this Agreement.

5.3 Restrictive Legends. The stock certificates for all the Shares shall be endorsed with the legend set forth in subsection (a) below, and the stock certificates for the Restricted Shares shall be endorsed with the legend set forth in subsection (b) below:

(a) "The shares represented by this certificate have not been registered under the Securities Act of 1933. The shares may not be sold or offered for sale in the absence of (i) an effective registration statement for the shares under such Act, (ii) a "no action" letter of the Securities and Exchange Commission with respect to such sale or offer or (iii) satisfactory assurances to the Company that registration under such Act is not required with respect to such sale or offer."

(b) "The shares represented by this certificate are unvested and are subject to certain repurchase rights granted to the Company and accordingly may not be sold, assigned, transferred, encumbered, or in any manner disposed of except in conformity with the terms of a written agreement dated April 19, 2002 between the Company and the registered holder of the shares (or the predecessor in interest to the shares). A copy of such agreement is maintained at the Company's principal corporate offices."

6. Additional Transfer Restrictions. Notwithstanding any other provision of this Agreement, the Employee shall not transfer, assign, encumber or otherwise dispose of any of the Restricted Shares which are subject to the Repurchase Right.

7. Escrow.

7.1 Deposit. Upon issuance, the certificates for the Restricted Shares which are subject to the Repurchase Right shall be deposited in escrow with the Company to be held in accordance with the provisions of this Section 7. Each deposited certificate shall be accompanied by a duly-executed Stock Power of Attorney in the form of Exhibit "A." The deposited certificates, together with any other assets or securities from time to time deposited with Company pursuant to the requirements of this Agreement, shall remain in escrow until such time or times as the certificates (or other assets and securities) are to be released or otherwise surrendered for cancellation in accordance with 7.3. Upon delivery of the certificates (or other assets and securities) to Company, Employee shall be issued a receipt acknowledging the number of Restricted Shares (or other assets and securities) delivered in escrow.

7.2 Recapitalization Reorganization. Any new, substituted or additional securities or other property which is by reason of any Recapitalization as contemplated under Section 2.4, distributed with respect to the Restricted Shares shall be immediately delivered to Company to be held in escrow under this Section 7, but only to the extent the Restricted Shares are at the time subject to the escrow requirements hereunder. However, all regular cash dividends on the Restricted Shares (or other securities at the time held in escrow) shall be paid directly to Employee and shall not be held in escrow.

7.3 Release/Surrender. The Restricted Shares, together with any other assets or securities held in escrow hereunder, shall be subject to the following terms relating to their release from escrow or their surrender to Company for repurchase and cancellation:

(a) Should Company elect to exercise the Repurchase Right with respect to any Unvested Shares, then the escrowed certificates for those Unvested Shares (together with any other assets or securities attributable thereto) shall be surrendered to Company concurrently with the payment to Employee of an amount equal to the aggregate Purchase Price paid for those Unvested Shares, and Employee shall cease to have any further rights or claims with respect to such Unvested Shares (or other assets or securities attributable thereto).

(b) Should Company elect not to exercise the Repurchase Right with respect to any Unvested Shares held at the time in escrow hereunder, then the escrowed certificates for those shares (together with any other assets or securities attributable thereto) shall be immediately released to Employee.

(c) As the Unvested Shares (or any other assets or securities attributable thereto) vest in accordance with the Vesting Schedule described in Section 2.3 and set forth in Exhibit "B," the certificates for those vested shares (as well as all other vested assets and securities) shall be released from escrow upon Employee's request, but not more frequently than once every six months.

(d) All Unvested Shares which vest (and any other vested assets and securities attributable thereto) shall be released within 30 days after the termination of Employee's employment with Company for any reason.

8. Special Tax Election

8.1 Section 83(b) Election. Under section 83 of the Internal Revenue Code of 1986 (the "Code"), the excess of the fair market value of the Shares on the date any forfeiture restrictions applicable to such shares lapse over the Purchase Price paid for such shares will be reportable as ordinary income on the lapse date. For this purpose, the term "forfeiture restrictions," among other things, includes the right of Company to repurchase the Unvested Shares pursuant to the Repurchase Right. Employee may elect under section 83(b) of the Code to be taxed at the time the Shares are acquired, rather than when and as such Shares cease to be subject to such forfeiture restrictions. Such election must be filed with the Internal Revenue Service within 30 days after the date of this Agreement. Regardless of whether the fair market value of the Shares on the date of this Agreement exceeds the Purchase Price paid, the election must be made to avoid adverse tax consequences in the future. **THE FORM FOR MAKING THIS ELECTION IS ATTACHED AS EXHIBIT "C" HERETO. EMPLOYEE UNDERSTANDS THAT FAILURE TO MAKE TO MAKE THIS FILING WITHIN THE APPLICABLE 30-DAY PERIOD WILL RESULT IN THE RECOGNITION OF ORDINARY INCOME AS THE FORFEITURE RESTRICTIONS LAPSE.**

8.2 Filing Responsibility. EMPLOYEE ACKNOWLEDGES THAT IT IS EMPLOYEE'S SOLE RESPONSIBILITY, AND NOT COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF EMPLOYEE REQUESTS COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON HIS OR HER BEHALF. EMPLOYEE FURTHER ACKNOWLEDGES THAT THE COMPANY RECOMMENDS THAT EMPLOYEE CONSULT WITH A TAX PROFESSIONAL BEFORE MAKING AN ELECTION UNDER SECTION 83(b) OF THE CODE.

9. Miscellaneous

9.1 Assignment. Company may assign the Repurchase Right to any person or entity selected by the Board.

9.2 No Employment or Service Contract. Nothing in this Agreement shall confer upon Employee any right to continue in the employment of Company for any period of specific duration or interfere with or otherwise restrict in any way the rights of Company (or any

parent or subsidiary employing or retaining Employee) or of Employee, which rights are hereby expressly reserved by each, to terminate Employee's employment with Company at any time for any reason, with or without cause.

9.3 Notices. Any notice required to be given under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the U.S. mail, registered or certified, postage prepaid and properly addressed to the party entitled to such notice at the address indicated below such party's signature line on this Agreement or at such other address as such party may designate by ten days advance written notice under this paragraph to all other parties to this Agreement.

9.4 No Waiver. The failure of Company in any instance to exercise the Repurchase Right shall not constitute a waiver of any other repurchase rights that may subsequently arise under the provisions of this Agreement or any other agreement between Company and Employee. No waiver of any breach or condition of this Agreement shall be deemed to be a waiver of any other or subsequent breach or condition, whether of like or different nature.

9.5 Cancellation of Shares. If Company shall make available, at the time and place and in the amount and form provided in this Agreement, the consideration for the Restricted Shares to be repurchased in accordance with the provisions of this Agreement, then from and after such time, the person from whom such shares are to be repurchased shall no longer have any rights as a holder of such shares (other than the right to receive payment of such consideration in accordance with this Agreement). Such shares shall be deemed purchased in accordance with the applicable provisions hereof, and Company shall be deemed the owner and holder of such shares, whether or not the certificates therefor have been delivered as required by this Agreement.

9.6 Undertaking. Employee hereby agrees to take whatever additional action, including the furnishing of information to the Company, and execute whatever additional documents Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on either Employee or the Restricted Shares pursuant to the provisions of this Agreement.

9.7 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Texas without resort to that State's conflict-of-laws rules.

9.8 Successors and Assigns. The provisions of this Agreement shall inure to the benefit of, and be binding upon, Company and its successors and assigns and upon Employee, Employee's assigns and the legal representatives, heirs and legatees of Employee's estate, whether or not any such person shall have become a party to this Agreement and have agreed in writing to join herein and be bound by the terms hereof.

9.9 Administration. The Company retains administration rights with respect to this Agreement. These rights include the discretion to (a) adopt, amend, and rescind administrative and interpretive rules and regulations relating to the Agreement; (b) construe the Agreement; and (c) delegate its duties hereunder to such agents as it may appoint from time to time.

9.10 **Taxes.** The Company may from time to time, in its discretion, require Employee to pay to the Company, the amount that the Company deems necessary to satisfy the Company's current or future obligation to withhold federal, state or local income or other taxes that Employee incurs as a result of this Agreement. With respect to any required tax withholding, Employee may (a) direct the Company to withhold from the shares of Common Stock to be issued to Employee the number of shares necessary to satisfy the Company's obligation to withhold taxes, that determination to be based on the shares' fair market value at the time as of which such determination is made; (b) deliver to the Company sufficient shares of Common Stock to satisfy the Company's tax withholding obligations, based on the shares' fair market value at the time as of which such determination is made; or (c) deliver sufficient cash to the Company to satisfy its tax withholding obligations. If Employee elects to use such a stock withholding feature, Employee must make the election at the time and in the manner that the Company prescribes. The Company may, at its sole option, deny Employee's request to satisfy withholding obligations through Common Stock instead of cash. In the event the Company subsequently determines that the aggregate fair market value of any shares of Common Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then Employee shall pay to the Company, immediately upon the Company's request, the amount of that deficiency. Determination of the Common Stock's fair market value shall be made in good faith by the Company.

9.11 **Amendments.** The Company may amend, alter, suspend, discontinue or terminate this Agreement; provided that, without the consent of Employee, no such Company action may materially and adversely affect the rights of Employee under this Agreement without Employee's consent.

9.12 **Severability.** If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and the Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

9.13 **No Liability for Good Faith Determinations.** The Company and the members of the Board shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Restricted Shares granted hereunder.

9.14 **No Guarantee of Interests.** The Board and the Company do not guarantee the Common Stock of the Company from loss or depreciation.

10. Definitions

10.1 **Board** means the Company's Board of Directors.

10.2 **Change in Control** means the event that is deemed to have occurred if: (a) the Company shall not be the surviving entity in any merger or consolidation (or survives only as a Subsidiary of an entity other than a previously wholly owned subsidiary of the Company), (b) the Company sells, leases or exchanges or agrees to sell, lease or exchange all or

substantially all of its assets to any other person or entity (other than a wholly-owned subsidiary of the Company), (c) the Company is to be dissolved and liquidated, or (d) any person or entity, including a “group” as contemplated by Section 13(d)(3) of the Exchange Act (other than any stockholder or holder of warrants or options to acquire capital stock of the Company on the date hereof), acquires or for the first time controls or is able to vote (directly or through nominees or beneficial ownership) after the date hereof (other than as the direct result of a transfer by descent or distribution of a decedent’s estate) fifty percent (50%) or more of the deemed issued and outstanding stock of the Company having power ordinarily to vote for directors of the Company (on a fully-diluted, as converted basis).

10.3 **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

10.4 **Person** means any person or entity of any nature whatsoever, specifically including an individual, a firm, a company, a corporation, a partnership, a trust or other entity; a Person, together with that Person’s “Affiliates” and “Associates” (as those terms are defined in Rule 12b-2 under the Exchange Act), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting or disposing of securities of the Company with such Person, shall be deemed a single “Person.”

10.5 **Subsidiary** means with respect to any Person, any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first indicated above.

COMPANY:

MONITRONICS INTERNATIONAL, INC.

By: _____ /s/ James R. Hull

Name: James R. Hull
Title: President and CEO

EMPLOYEE:

By: _____ /s/ Barry Johnson

Name: Barry Johnson

EXHIBIT B
VESTING SCHEDULE

- 20% shall vest on the date of this Agreement
- 20% shall vest on the first anniversary of the date of this Agreement
- 20% shall vest of the second anniversary of the date hereof
- 20% shall vest of the third anniversary of the date hereof
- 20% shall vest of the fourth anniversary of the date hereof

CORRECTION TO FIRST AMENDMENT TO LEASE AGREEMENT

This **CORRECTION TO FIRST AMENDMENT TO LEASE AGREEMENT** is effective as of January 14, 2005 by and between **AGF VALLEY VIEW, LTD.**, a Texas limited partnership ("Landlord") and **MONITRONICS INTERNATIONAL, INC.**, a Texas corporation ("Tenant").

RECITALS

- A. Landlord and Tenant entered into a Lease Agreement dated May 3, 2004 (the "Lease").
- B. Landlord and Tenant entered into a First Amendment to Lease Agreement dated January 14, 2005 (the "First Amendment").
- C. The First Amendment fails to state the duration of the Lease Term, although the parties intended that the Lease Term continue through the period for payment of Base Rental set forth in the First Amendment.
- D. Landlord and Tenant wish to correct the First Amendment as set forth herein.

NOW, THEREFORE, for valuable consideration, the parties agree as follows:

- 1. Terms defined in the Lease and the First Amendment have the same meaning when used in this Agreement, unless a different definition is given.
- 2. Landlord and Tenant agree that the Lease Term expires May 31, 2015.
- 3. Except as corrected hereby, the Lease and the First Amendment shall remain in full effect and this Correction shall be binding upon Landlord and Tenant and their respective successors and assigns.

[SIGNATURES ARE ON SEPARATE PAGES]

EXECUTED to be effective as of the date shown above.

LANDLORD:

AGF VALLEY VIEW, LTD.,
a Texas limited partnership

By: Skyrise Properties, LLC, a Texas
limited liability company,
its sole General Partner

By: /s/ Leora Azoulay-Lesh

Leora Azoulay-Lesh
Vice President of
Skyrise Properties, LLC

TENANT:

MONITRONICS INTERNATIONAL, INC.,
a Texas corporation

By: /s/ Stephen M. Hedrick

Name: Stephen M. Hedrick
Title: V.P. - Finance

FOURTH AMENDMENT TO LEASE AGREEMENT

This **FOURTH AMENDMENT TO LEASE AGREEMENT** (the "Amendment") is entered into on September 6, 2005, between MRP/VV, L.P., a Delaware limited partnership ("Landlord"), MONITRONICS INTERNATIONAL, INC., ("Tenant").

RECITALS:

A. Tenant is leasing Premises known as Suite 815 containing 4,550 square feet of Net Rentable Area; Suite 821 containing 8,037 square feet of Net Rentable Area; Suite 825 containing 1,936 square feet of Net Rentable Area; and Suite 829 containing 6,043 square feet of Net Rentable Area totaling 20,566 square feet of Net Rentable Area in Building 8 of the property known as Valley View Tech Center, located at 12801 N. Stemmons Freeway in Farmers Branch, Texas, under the terms of the Lease Agreement dated December 4, 1991 (the "Lease") and as amended under the First Amendment Of Lease dated February 17, 1997, ("First Amendment"); the Second Amendment Of Lease dated September 17, 1997 ("Second Amendment"); and the Third Amendment Of Lease dated August 31, 2001 ("Third Amendment").

B. Landlord and Tenant desire to reduce the Premises by the space (the "Reduction Space") known as Suite 815 containing 4,550 square feet of Net Rentable Area and Suite 829 containing 6,043 square feet of Net Rentable Area of the Building as described on the floor plan attached to this Amendment as **Exhibit A**.

C. Landlord and Tenant now desire to extend the term of the Lease.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are acknowledged, Landlord and Tenant amend the Lease as follows:

- The term of the Lease, which was to expire December 31, 2005, is extended to expire February 28, 2011.
- On the "Effective Date" of January 1, 2006, Tenant will surrender possession of the Reduction Space to Landlord in the condition that would otherwise be required under the Lease with respect to the Premises at the end of the term. On and after the Effective Date, the Reduction Space will no longer be a part of the Premises. Upon the Effective Date, all references in the Lease to the "Premises" will designate Suites 821 and 825 in the Building containing a total of 9,973 square feet of Net Rentable Area ("Renewal Space") consisting of the area described on Exhibit B.
- Beginning on the Effective Date, the Base Rent will be modified pursuant to the table below. Base Rent as so modified will be payable in monthly installments as otherwise provided in the Lease.

<u>PERIOD</u>	<u># OF MONTHS</u>	<u>ANNUAL RATE PER RSF</u>	<u>MONTHLY INSTALLMENT</u>
1/1/2006 to 2/28/2006	2	\$ 0.00	\$ 0.00
3/1/2006 to 2/28/2011	60	\$ 8.50	\$ 7,064.21

4. Tenant shall lease the Renewal Space on an "As-Is" basis and shall incur all costs associated with demising the space between Suites 815 and 829 to include construction costs of the demising walls to deck and separating all utilities including electricity, lighting, HVAC and mechanical services.

5. Adjustments to Base Rent pursuant to Paragraph 6 of the Lease for any period before the Effective Date will not be affected by this Amendment. Beginning on the Effective Date, adjustments to Base Rent pursuant to Paragraph 6 of the Lease will be calculated based on Taxes, Insurance, and Common Area Maintenance Costs that will equal the Taxes, Insurance and Common Area Maintenance Costs per square foot of Net Rentable Area for the calendar year of 2005 gross up to 95% occupancy. In all other respects, adjustments to Base Rent will continue to be calculated and paid as currently provided in the Lease.

6. Effective on the Effective Date, the Third Amendment Of Lease, Parking, Paragraph 5 is hereby amended to decrease the number of vehicles authorized to park in the general parking area to 22 non-reserved surface parking spaces and 6 reserved surface parking spaces. No parking charges shall apply to the vehicles in the general parking area.

7. Rider 1, Renewal Option, attached hereto is incorporated and made part of the Amendment.

8. Landlord's suite address under the Lease is changed to:

Stream Realty Partners
Attention: Helen Rivero
2200 Ross Avenue, Suite 5400

IN WITNESS WHEREOF, Landlord and Tenant have executed and delivered this Amendment.

LANDLORD:

MRP/VV, L.P., a Delaware limited partnership

By: MRP/GP, L.L.C., a Texas limited liability company,
general partner

By: Stream Realty Partners, L.P. is authorized agent
(illegible), L.L.C. its sole G. P.

BY: /s/ Helen Rivero

NAME: Helen Rivero

TITLE: V.P.

DATE: 9.7.05

TENANT:

Monitronics International, Inc.

BY: /s/ Stephen M. Hedrick

NAME: STEPHEN M. HEDRICK

TITLE: V. P. FINANCE

DATE: 9/6/05

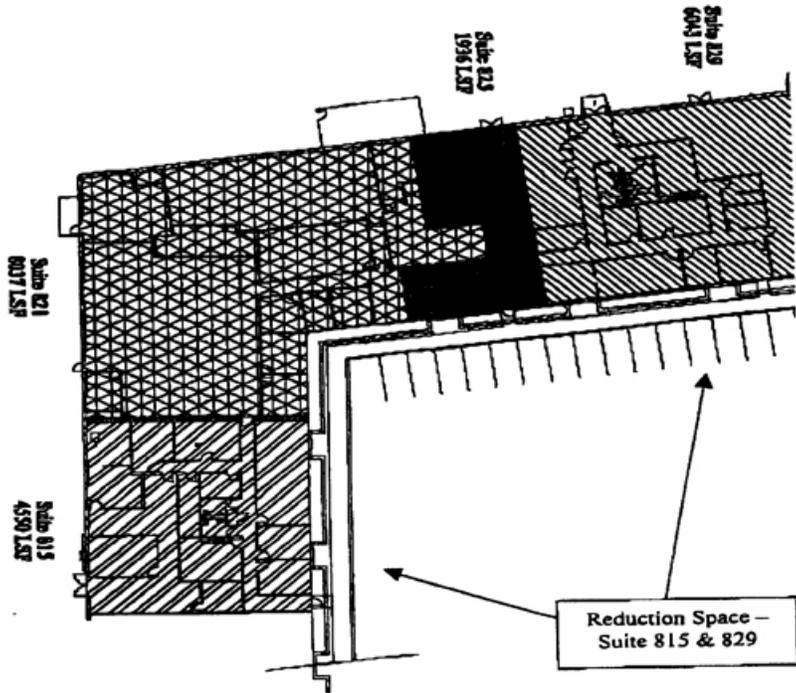
EXHIBIT A
REDUCTION SPACE

12801 N. Stemmons Fwy., Farmers Branch, TX

VALLY VIEW TECH

SUITE: 815-829
DATE: 7-19-05

ENTOS
Design



SITE PLAN

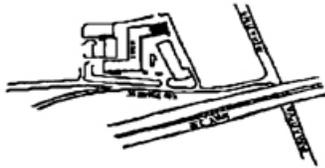
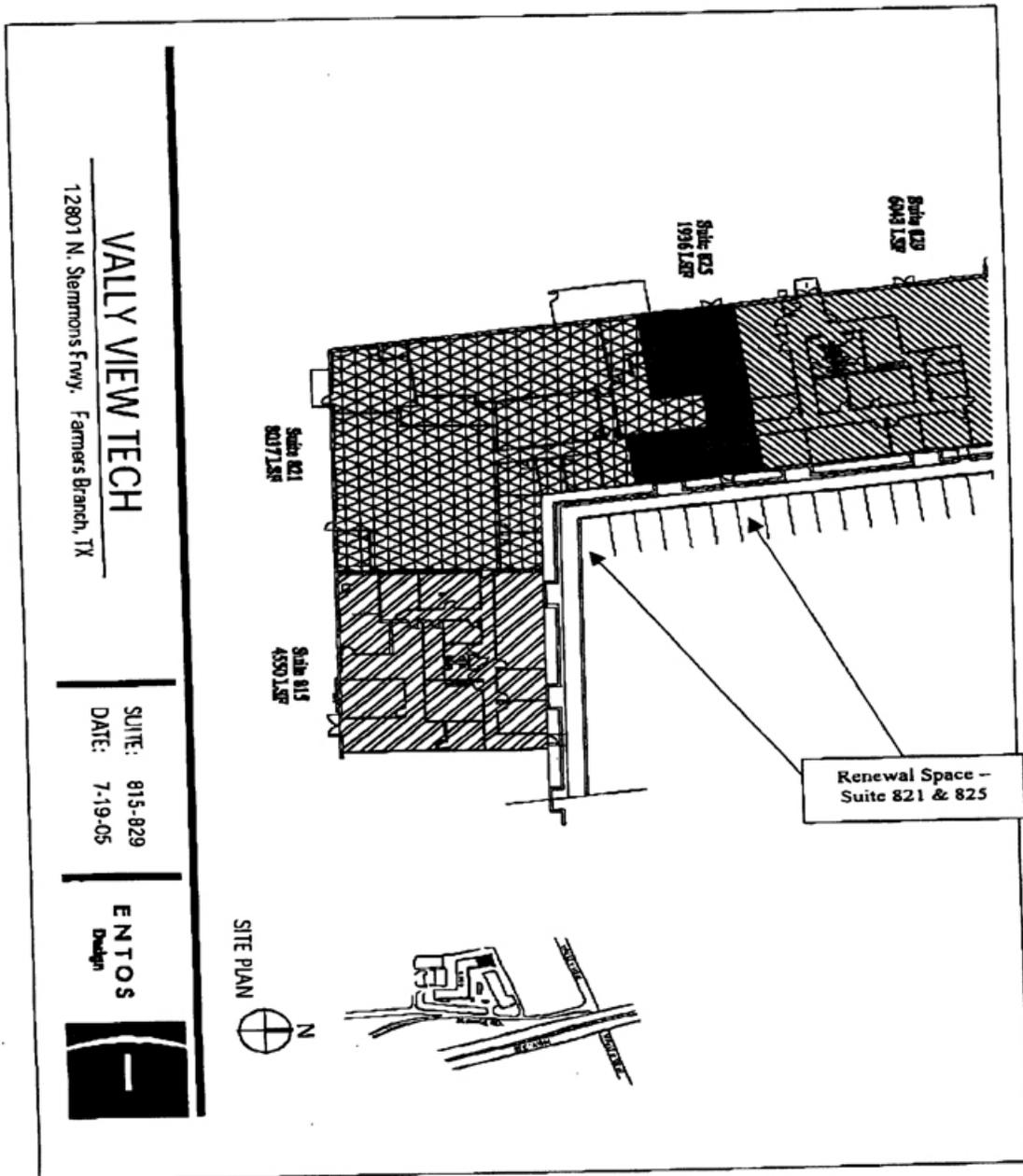


EXHIBIT B
RENEWAL SPACE



12801 N. Stemmons Fwy. Farmers Branch, TX

VALLY VIEW TECH

SUITE: 815-829
DATE: 7-19-05

ENTOS
Design



RIDER 1

RENEWAL OPTION

Provided this Lease is then in full force and effect and no Event of Default shall have occurred and be continuing, Tenant has one (1) option to renew the term of this Lease for an additional term of five (5) years on the same terms and conditions contained in this Lease except that the Base Rental be paid under this Lease for the renewal term shall be at the then prevailing market rental rate for office/showroom space of similar quality and similar size and location. The renewal option shall be exercised only by Tenant's giving written notice to Landlord at least six (6) months before the expiration of the current Terms of this Lease. If Tenant fails to deliver to Landlord written notice of the exercise of the renewal option within the prescribed time period, the renewal option shall lapse. Any assignment or subletting by Tenant pursuant to this Lease, other than an assignment or subletting that does not require Landlord's consent, shall terminate the renewal option.

CERTIFICATIONS

I, James R. Hull, 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: November 10, 2005

/s/ James R. Hull
James R. Hull
Chief Executive Officer and President
(Principal Executive Officer)

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: November 10, 2005

/s/ Michael R. Meyers

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

**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 September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James R. Hull, 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/ James R. Hull
James R. Hull
Chief Executive Officer and President
(Principal Executive Officer)

Date: November 10, 2005

