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 March 31, 2006

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

For the transition period from______ to ______

Commission File Number 333-110025

Monitronics International, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

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

Title of Each Class	Outstanding at April 30, 2006
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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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	March 31, 2006 (Unaudited)	June 30, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 1,182	$ 190
Accounts receivable, net	6,980	6,392
Federal income tax receivable	—	8,427
Prepaid expenses and other current assets	948	1,124
Total current assets	9,110	16,133
Property and equipment, net	9,043	7,215
Subscriber accounts, net of accumulated amortization of $416,436 as of March 31, 2006 and $361,727 as of June 30, 2005	472,579	471,212
Deferred financing costs, net	10,336	12,418
Goodwill	14,795	14,795
Total assets	$ 515,863	$ 521,773
Liabilities and Shareholders' Net Capital		
Current liabilities:		
Accounts payable	$ 1,960	$ 2,554
Accrued expenses	3,255	2,413
Purchase holdbacks	8,628	7,855
Deferred revenue	5,497	5,865
Interest payable	3,402	7,370
Taxes payable	132	33
Current portion of long-term debt	5,420	1,804
Total current liabilities	28,294	27,894
Non-current liabilities		
Long-term debt, less current portion	426,030	425,809
Redeemable preferred stock, net	46,999	13,342
Total non-current liabilities	473,029	439,151
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 March 31, 2006 and 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	124,807	156,677
Treasury stock, at cost, 914,827 shares as of March 31, 2006 and 843,194 as of June 30, 2005	(9,358)	(8,913)
Accumulated deficit	(101,220)	(93,347)
Total shareholders' net capital	14,540	54,728
Total liabilities and shareholders' net capital	$ 515,863	$ 521,773

See accompanying notes.

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MONITRONICS INTERNATIONAL, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
	(In thousands)			
Revenue	$46,860	$41,463	$ 138,671	$ 123,454
Cost of services	5,672	4,714	16,884	14,176
Gross profit	41,188	36,749	121,787	109,278
Operating expenses:				
Sales, general and administrative	8,975	7,964	26,869	23,037
Depreciation	497	616	1,660	1,655
Amortization	22,333	19,849	65,959	58,152
	31,805	28,429	94,488	82,844
Operating income	9,383	8,320	27,299	26,434
Other expense:				
Interest expense	11,974	10,235	35,138	30,394
	11,974	10,235	35,138	30,394
Loss before income taxes	(2,591)	(1,915)	(7,839)	(3,960)
Provision (benefit) from income taxes	16	(596)	34	(1,242)
Net loss	$ (2,607)	$ (1,319)	$ (7,873)	$ (2,718)
Preferred dividends accrued	—	—	—	(878)
Accretion of redeemable convertible preferred stock redemption value	—	—	—	(18)
Net loss attributed to common stock shareholders	$ (2,607)	$ (1,319)	$ (7,873)	$ (3,614)

See accompanying notes.

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

	Nine Months Ended March 31, 2006	Nine Months Ended March 31, 2005
	(In thousands)	
Operating Activities		
Net loss	$ (7,873)	$ (2,718)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	67,619	59,807
Amortization of deferred financing costs	2,082	2,138
Deferred income taxes	—	(1,712)
Provision for bad debt	2,702	2,790
Non-cash interest expense for redeemable preferred stock	1,787	—
Non-cash interest accretion	358	343
Non-cash expense related to put option	346	474
Non-cash expense related to vacated lease	—	141
Changes in current assets and liabilities:		
Accounts receivable (excluding provision for bad debt)	(3,290)	(3,106)
Prepaid expenses and other current assets	176	(31)
Accounts payable	(594)	(443)
Accrued expenses	842	(186)
Accrued interest	(3,968)	(4,018)
Deferred revenue	(368)	426
Income taxes payable and receivable	8,526	1,652
Net cash provided by operating activities	68,345	55,557
Investing Activities		
Purchases of property and equipment	(3,526)	(3,002)
Net proceeds from sale of land	40	—
Purchases of subscriber accounts (net of holdbacks)	(66,553)	(70,358)
Net cash used in investing activities	(70,039)	(73,360)
Financing Activities		
Payment of deferred financing and issuance costs	—	(1,670)
Purchase of treasury stock	(500)	(500)
Proceeds from credit facility	55,200	62,400
Payments of credit facility	(52,014)	(37,238)
Redemption of preferred stock	—	(5,610)
Net cash provided by financing activities	2,686	17,382
Increase (decrease) in cash and cash equivalents	992	(421)
Cash and cash equivalents at beginning of period	190	1,645
Cash and cash equivalents at end of period	$ 1,182	$ 1,224
Significant cash transactions during the period for:		
Federal income tax refund	8,914	—
Interest paid	$ 35,087	$ 31,225
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
Dividend election on redeemable preferred stock (see Note 4 - Redeemable Preferred Stock)	$ 45,212	$ —

See accompanying notes.

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MONITRONICS INTERNATIONAL, INC.
STATEMENT OF SHAREHOLDERS' NET CAPITAL
(In thousands, except for shares)

	Class A Common Stock		Additional Paid-in Capital	Treasury Stock, at Cost		Accumulated Deficit	Total Shareholders' Net Capital
	Shares	Amount		Shares	Amount		
Balance at June 30, 2005	31,090,317	$ 311	$156,677	843,194	$ (8,913)	$ (93,347)	$ 54,728
Reclass redeemable preferred stock to non-current liabilities related to dividend election (see Note 4)	—	—	(31,870)	—	—	—	(31,870)
Purchase of treasury stock (Hull Family Limited Partnership Put Option)	—	—	—	71,633	(445)	—	(445)
Net loss	—	—	—	—	—	(7,873)	(7,873)
Balance at March 31, 2006	31,090,317	$ 311	$124,807	914,827	$ (9,358)	$ (101,220)	$ 14,540

See accompanying notes.

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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 on 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 March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
Net loss as reported	$(2,607)	$ (1,319)	$(7,873)	$(2,718)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of value of related tax effects	(29)	(128)	(104)	(193)
Pro forma net loss	$(2,636)	$ (1,447)	$(7,977)	$(2,911)

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 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.

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

2. Non-Current Liabilities

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

	March 31, 2006	June 30, 2005
Revolving credit line and term loan payable	$ 249,875	$ 246,687
Senior subordinated notes payable	160,000	160,000
Subordinated notes payable	21,744	21,470
Investor put option (see Note 3 (Related Party Transactions))	511	220
Redeemable preferred stock (see Note 4 (Redeemable Preferred Stock))	46,999	—
	479,129	428,377
Less: discount	680	764
Less: current portion	5,420	1,804
	$ 473,029	$ 425,809

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 March 31, 2006, the Company had $79.3 million in borrowings outstanding under the $145 million revolving credit line and had $171.1 million in borrowings outstanding under the term loan. Further, the Company had $65.8 million in availability under the revolving credit line, of which $46.1 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 nine months ended March 31, 2006, borrowings under the credit facility had a weighted average interest rate of 7.7%. 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, 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

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

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 March 31, 2006, the Company was in compliance with all required financial tests.

On August 18, 2003, the Company entered into an agreement with the Hull Family Limited Partnership (the "Partnership") and Mr. James R. Hull, the Company's 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 January 9, 2006, the second 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 $0.5 million at March 31, 2006. See Note 3 (Related Party Transactions) to these financial statements.

Scheduled maturities (as defined) of long-term debt at March 31, 2006, utilizing the required payment schedule of the Senior Subordinated Notes, subordinated notes, credit facility, fair value of the investor put option and the redeemable preferred stock (See Note 4 – Redeemable Preferred Stock) are as follows for fiscal years below (in thousands):

2006	$ 438
2007	7,170
2008	65,107
2009	100,420
2010	145,994
Thereafter	160,000
	$479,129

3. Related Party Transactions

Concurrently with the Senior Subordinated Notes offering, the Company entered into an agreement with James R. Hull, the Company's then president and chief executive officer, and the Hull Family Limited Partnership (the "Partnership") pursuant to which the Company paid Mr. Hull a $2 million transaction fee in cash at the closing of the refinancing on August 25, 2003. This fee was capitalized as deferred financing costs. On November 7, 2003, the Partnership exercised its right to require the Company to purchase 400,000 shares of Class A common stock at a purchase price of $1 million in cash. Based on the fair value of the Company's stock, no expense was recorded related to the repurchase of the Partnership's shares. The agreement also gives the Partnership and Mr. Hull a written investor put option to sell up to a combined total of $500,000 in value of Class A common stock to the Company in each of the five fiscal years ending June 30, 2009 at purchase prices per share that are based on a multiple of the Company's consolidated cash flow. 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. On January 9, 2006, the second of five option exercises was completed when the Partnership sold the Company 71,633 shares of Class A common stock for $500,000. As of March 31, 2006, the outstanding liability for the put option was $0.5 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

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

shareholders determined the number of shares to be received in the exchange based on the liquidation preference of, and accrued but unpaid dividends on, the existing preferred shares as of July 14, 2004 for the shares held by the Windward entities and as of June 30, 2003 for the remaining preferred shares. The Company's preferred shareholders agreed to value the Class A common stock and new Series A preferred stock received in the exchange at $6.00 per share. The valuation was based on a negotiation amongst the Company's preferred shareholders and the agreement of New York Life Capital Partners II, L.P. and PPM America Private Equity Fund L.P. to subsequently purchase the shares of Class A common stock received by the Windward entities in the exchange for $6.00 per share. No independent third party valuations or appraisal opinions were obtained by the preferred shareholders or board of directors during the negotiation process. The Company's lenders and preferred shareholders consented to the recapitalization as required under the terms of the Company's applicable agreements.

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

4. Redeemable Preferred Stock

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

Accounting Treatment

As a result of the Dividend Election made on November 4, 2005, the Company recorded the Series A preferred stock as a debt instrument by reclassifying, from additional paid-in capital to a long-term liability, the amount necessary to adjust the Series A preferred stock to its fair value as of the date of the Dividend Election. The Company obtained an independent valuation of the Series A preferred stock to determine the fair value of the Series A preferred stock. On November 4, 2005, the fair value of the of the Series A preferred stock was $45.2 million. The fair value of the liability will be accreted to the redemption amount of $57.9 million to be paid at June 30, 2008 using the interest rate implicit at the Dividend Election date. As of March 31, 2006, the Company reported a liability for the Series A preferred stock of $47.0 million consisting of $45.2 million as of November 4, 2005, which was the fair value of the Series A Preferred stock, plus accrued interest of $1.8 million. The liquidation preference of the Series A preferred stock as of March 31, 2006 is $46.7 million as calculated per the Company's articles of incorporation (see Liquidation Preference below).

Series A Preferred Stock Dividend Preferences

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

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

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

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

Voting Rights

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

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

- Any change in the nature of the Company's business;
- The issuance of securities that rank senior to, or pari passu with, the Series A preferred stock, or the incurrence of certain indebtedness, subject to limited exceptions;
- The issuance of additional Series A preferred stock other than to holders who received Series A preferred stock in the recapitalization or their permitted transferees;
- A redemption or repurchase of company securities that rank junior to, or pari passu or senior to, the Series A preferred stock, subject to limited exceptions;
- The declaration or payment of dividends or distributions on any company security that ranks junior to, or pari passu or senior to, the Series A preferred stock, subject to limited exceptions;
- The Company's entry into agreements that prohibit it from performing its obligations in respect of the Series A preferred stock or which prohibit the exercise of the right of the holders of Series A preferred stock to require a sale of the company or other voting rights;
- Acquisitions in excess of $100 million;
- Amendment of the Company's articles of incorporation or bylaws to increase the authorized shares of Series A preferred stock or adversely affect or otherwise impair the rights or relative preferences or priorities of the Series A preferred stock, other than to establish or amend senior securities otherwise permitted to be issued;
- The Company's entry into or amendment of agreements with affiliates, subject to limited exceptions; or
- The Company's establishment, acquisition of or ownership of any equity securities of ABRY or its affiliates.

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

Conversion Rights

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

Redemption Rights

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

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

Liquidation Preference

The Series A preferred stock will have a liquidation preference per share based on the Liquidation Value (as defined below) plus accrued and unpaid dividends. As of March 31, 2006, the Series A preferred stock had an aggregate liquidation preference of $46.7 million consisting of a Liquidation Value of $45.2 million as of November 4, 2005, which was the fair value of the Series A preferred stock, plus accrued and unpaid dividends of $1.5 million.

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

5. Income Taxes

In February 2006, the Company received $8.9 million from the Internal Revenue Service, which represented the final $8.3 million payment of a total $17.6 million tax refund and $0.6 million in related interest income, that was due to an approved change in its tax method of accounting for a substantial portion of its subscriber accounts. The Company previously amortized all of its subscriber accounts for tax purposes over a 15-year period. Under the new method, the Company is amortizing a substantial portion of its subscriber accounts over a 10-year period.

The Company provides a valuation allowance for its deferred tax assets when it is more likely than not that some portion or all of its deferred tax assets will not be realized. In June 2005, the Company established a valuation allowance to fully reserve its net deferred tax assets. The primary reason the valuation allowance was established was due to the history of cumulative losses in the three year period ending June 30, 2005. Management also considered possible tax planning strategies. During the three and nine months ended March 31, 2006, the Company continued to fully reserve its net deferred tax assets and therefore there is no provision or benefit for income taxes, except for state income tax expense, for the three and nine months ended March 31, 2006, compared to a $0.6 million and $1.2 million benefit for the three and nine months ended March 31, 2005, respectively. 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.

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

6. Commitments and Contingencies

In December 2004, a lawsuit was served on the Company in *Gatan, et al., vs. Alarm One, Inc., et al.,* a case then pending in the Superior Court for Alameda County, California, and which was originally filed against Alarm One, Inc., a former authorized dealer of the Company, and others in 2003. The Company was served with a complaint seeking certification of a class of persons whose Alarm One contracts were assigned to the Company between March 1, 2000 and December 13, 2004. The operative complaint in this matter alleges claims by two named plaintiffs against the Company, as the claims filed by the two original named plaintiffs against Alarm One, Inc. have now been settled out of this case by Alarm One, Inc., and neither of the original named plaintiffs had contracts which were assigned to the Company. The complaint alleges that the Company has violated various California consumer protection statutes, including the California Home Solicitation Act, the California Unruh Act, the California Consumers Legal Remedies Act, and the California Unfair Competition Law, as well as breached the contracts, by failing to comply with various statute requirements or improperly enforcing the contracts in light of the various statute requirements. The new named plaintiffs seek damages, or alternatively, rescission or reformation of the contracts assigned to the Company, as well as compensatory damages, attorneys' fees, costs and expenses, punitive damages, and certain injunctive relief. Plaintiffs moved for class certification of their claims against the Company on December 1, 2005, and no class has been certified as yet. The Company believes it acted properly and lawfully in its dealings with its customers, and that most if not all of the claims asserted in the case have already been addressed by the prior settlement by Alarm One, Inc., or alternatively are the sole responsibility of Alarm One, Inc., and not the Company. As a result, the Company intends to vigorously defend and contest any and all issues or threatened claims in this matter. Management is currently unable to determine the outcome of the claims or to estimate the amount of potential loss. In accordance with SFAS No. 5, *Accounting for Contingencies*, the Company has not established a loss accrual associated with this claim.

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

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. 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 service, this is not a cancellation. If a subscriber relocates and discontinues service and a new subscriber takes over the service continuing the revenue stream, this is a cancellation and a new owner takeover. Accounts cancelled are therefore net of new owner takeovers. We also adjust the number of canceled accounts by excluding those that are contractually guaranteed by our dealers. Our typical dealer contract provides that if a subscriber cancels in the first year of its contract, the dealer must replace the lost monthly revenue attributable to the canceled contract and either replace the canceled account with a new one or refund our purchase price. To help ensure the dealer's obligation to us, we typically hold back a portion of the purchase price for every account we purchase. In some cases, the amount of the purchase holdback may be less than actual attrition experience. In recent years, a substantial portion of the accounts that canceled within this initial 12-month period were replaced by the dealers at no additional cost to us.

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

	Twelve Months Ended March 31,	
	2006	2005
Beginning balance of accounts	449,128	425,291
Accounts purchased	94,630	83,911
Accounts canceled (1)	(56,273)	(58,150)
Accounts guaranteed to be refunded from holdback	(2,300)	(1,924)
Ending balance of accounts	485,185	449,128
Attrition rate	12.0%	13.3%

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

Results of Operations

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

Revenues. Total revenues were $46.9 million in the three months ended March 31, 2006 compared to $41.5 million in the three months ended March 31, 2005, which was an increase of $5.4 million, or 13%. This increase was primarily attributable to an increase in the number of subscriber accounts to 485,185 as of March 31, 2006 from 449,128 as of March 31, 2005 and a net increase in average revenue per customer.

Cost of services. Cost of services was $5.7 million in the three months ended March 31, 2006 compared to $4.7 million in three months ended March 31, 2005, which was an increase of $1.0 million, or 21%. As a percentage of revenues, cost of services was 12% for the three months ended March 31, 2006 and 11% for the three months ended March 31, 2005 principally due to higher field technical service expense as a result of proportionately higher service calls.

Sales, general and administrative (SG&A). SG&A was $9.0 million in the three months ended March 31, 2006 compared to $8.0 million in the three months ended March 31, 2005, which was an increase of $1.0 million, or 13%. As a percentage of revenues, SG&A was 19% for both the three months ended March 31, 2006 and March 31, 2005.

Amortization. Amortization of intangibles was $22.3 million in the three months ended March 31, 2006 compared to $19.9 million in the three months ended March 31, 2005, which was an increase of $2.4 million, or 12%. The increase was attributable to growth in our purchased subscriber accounts through our authorized dealer program.

Interest expense. Interest expense was $12.0 million in the three months ended March 31, 2006 compared to $10.2 million in the three months ended March 31, 2005, which was an increase of $1.8 million, or 18%. The increase resulted from the $1.1 million of interest expense related to the Dividend Election made by the redeemable preferred shareholders on November 4, 2005 (see Note 4 (Redeemable Preferred Stock)), an increase in borrowing under our revolving line of credit to fund our purchase of subscriber accounts, and increases in variable interest rates which were offset by $0.6 million in interest income related to the tax refund received in February 2006 (see Note 5 (Income Taxes)). Our average interest rate decreased to 10.0% in the three months ended March 31, 2006 from 10.2% in the three months ended March 31, 2005 as a result of lower average interest rates on the redeemable preferred stock.

Provision (benefit) from income taxes. Beginning in June 2005, primarily due to experiencing a cumulative loss before income taxes for the three-year period ended June 30, 2005, we established a valuation allowance to fully reserve our net deferred tax assets (see Critical Accounting Policies – Income Taxes and Deferred Tax Assets). Therefore, there was no provision or benefit for income taxes for the three months ended March 31, 2006, except state income taxes, compared to a $0.6 million benefit for the three months ended March 31, 2005.

Net loss. Net loss was $2.6 million in the three months ended March 31, 2006 compared to a net loss of $1.3 million in the three months ended March 31, 2005 primarily due to higher interest expense resulting from the $1.1 million of interest expense related to the Dividend Election made by the redeemable preferred shareholders on November 4, 2005 (see Note 4 (Redeemable Preferred Stock)).

Nine Months Ended March 31, 2006 Compared to Nine Months Ended March 31, 2005

Revenues. Total revenues were $138.7 million in the nine months ended March 31, 2006 compared to $123.4 million in the nine months ended March 31, 2005, which was an increase of $15.3 million, or 12%. This increase was primarily attributable to an increase in the number of subscriber accounts to 485,185 as of March 31, 2006 from 449,128 as of March 31, 2005 and a net increase in average revenue per customer.

Cost of services. Cost of services was $16.9 million in the nine months ended March 31, 2006 compared to $14.2 million in nine months ended March 31, 2005, which was an increase of $2.7 million, or 19%. As a percentage of revenues, cost of services was 12% for the nine months ended March 31, 2006 and 11% for the nine months ended March 31, 2005 principally due to higher field technical service expense as a result of proportionately higher service calls.

Sales, general and administrative. SG&A was $26.9 million in the nine months ended March 31, 2006 compared to $23.0 million in the nine months ended March 31, 2005, which was an increase of $3.9 million, or 17%. As a percentage of revenues, SG&A was 19% for both the nine months ended March 31, 2006 and March 31, 2005.

Amortization. Amortization of intangibles was $66.0 million in the nine months ended March 31, 2006 compared to $58.2 million in the nine months ended March 31, 2005, which was an increase of $7.8 million, or 13%. The increase was attributable to growth in our purchased subscriber accounts through our authorized dealer program.

Interest expense. Interest expense was $35.1 million in the nine months ended March 31, 2006 compared to $30.4 million in the nine months ended March 31, 2005, which was an increase of $4.7 million, or 15%. The increase resulted from $1.8 million of interest expense related to the Dividend Election made by the redeemable preferred shareholders on November 4, 2005 (see Note 4 (Redeemable Preferred Stock)), an increase in our average long-term debt outstanding throughout the period incurred to fund our purchase of subscriber accounts, and increases in variable interest rates which were offset by $0.6 million in interest income related to the tax refund received in February 2006 (see Note 5 (Income Taxes)). Our average interest rate decreased to 9.9% in the nine months ended March 31, 2006 from 10.1% in the nine months ended March 31, 2005 as a result of lower average interest rates on the redeemable preferred stock.

Provision (benefit) from income taxes. Beginning in June 2005, primarily due to experiencing a cumulative loss before income taxes for the three-year period ended June 30, 2005, we established a valuation allowance to fully reserve our net deferred tax assets (see Critical Accounting Policies – Income Taxes and Deferred Tax Assets). Therefore, there was no provision or benefit for income taxes for the nine months ended March 31, 2006, except state income taxes, compared to a $1.2 million benefit for the nine months ended March 31, 2005.

Net loss. Net loss was $7.9 million in the nine months ended March 31, 2006 compared to a loss of $2.7 million in the nine months ended March 31, 2005 primarily due to higher interest expense resulting from an increase in borrowing under our revolving line of credit to fund our purchase of subscriber accounts and from $1.8 million of interest expense related to the Dividend Election made by redeemable preferred shareholders on November 4, 2005 (see Note 4 (Redeemable Preferred Stock)).

Liquidity and Capital Resources

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

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

As of March 31, 2006 and June 30, 2005, we had working capital deficits of $19.2 million and $11.8 million, respectively.

The increase in our working capital deficit from June 30, 2005 to March 31, 2006 was primarily due to the receipt of an $8.3 million federal income tax receivable, which was immediately used to paydown long-term debt, that was the final payment of a $17.6 million federal income tax refund resulting from an approved change in our tax method of accounting for a substantial portion of our subscriber accounts. We previously amortized all of our subscriber accounts for tax purposes over a 15-year period. Under the new method, we are amortizing a substantial portion of our subscriber accounts over a 10-year period.

Net cash provided by operating activities for the nine months ended March 31, 2006 was $68.3 million, as compared to $55.6 million for the nine months ended March 31, 2005. The increase in cash provided by operating activities for the nine months ended March 31, 2006 was primarily due to the income tax refund and growth in our subscriber base.

Net cash used in investing activities for the nine months ended March 31, 2006 was $70.0 million, compared to $73.4 million for the nine months ended March 31, 2005. For the nine months ended March 31, 2006, capital expenditures were $3.5 million versus $3.0 million for the nine months ended March 31, 2005. 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 costs 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 nine months ended March 31, 2006 was $2.7 million, as compared to $17.4 million for the nine months ended March 31, 2005.

As of March 31, 2006, we had $249.9 million outstanding under our credit facility, bearing interest at a weighted average rate for the nine months ended March 31, 2006 of approximately 7.7% per annum, and we had approximately $65.8 million in borrowing availability under our revolving credit line, of which $46.1 million was immediately available as calculated under the covenants in our credit facility. In addition, we had $181.7 million in principal amount outstanding of senior subordinated and subordinated notes as of March 31, 2006.

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

As a result of the Dividend Election made on November 4, 2005, we recorded the Series A preferred stock as a liability by reclassifying, from additional paid-in capital to a long-term liability, the amount necessary to adjust the Series A preferred stock to its fair value as of the Dividend Election date. We obtained an independent valuation of the Series A preferred stock to determine the fair value of the Series A preferred stock. On November 4, 2005, the fair value of the of the Series A preferred stock was $45.2 million. The fair value of the liability will be accreted to the redemption amount of $57.9 million to be paid at June 30, 2008 using the interest rate implicit at the Dividend Election date. As of March 31, 2006, we reported a liability for the Series A preferred stock of $47.0 million consisting of $45.2 million as of November 4, 2005, which was the fair value of the Series A Preferred stock, plus accrued interest of $1.8 million. The liquidation preference of the Series A preferred stock as of March 31, 2006 is $46.7 million as calculated per our articles of incorporation (see Liquidation Preference in Note 4 - Redeemable Preferred Stock to the financial statements, included in Part 1 - Item 1 of this Quarterly Report on Form 10-Q).

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.

On August 25, 2003, we issued $160.0 million of senior subordinated notes at 11.75% with a maturity date of September 1, 2010. Interest payments are to be made semi-annually in cash in arrears on March 1 and September 1 of each year beginning on March 1, 2004. On December 16, 2004, we completed an exchange offer in which we exchanged new notes that were registered under the Securities Act of 1933 for the senior subordinated notes. 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 March 31, 2006, we were in compliance with all required financial tests.

Critical Accounting Policies

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

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

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

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

Income Taxes and Deferred Tax Assets. As part of preparing our financial statements, significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and the need for a valuation allowance related to our deferred tax assets. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, especially the amortization of subscriber accounts, which are amortized using a 10-year 135% declining balance method for financial reporting purposes and are generally amortized using a 10-year straight-line method for tax purposes. These differences result in deferred tax assets and liabilities, which are included within our balance sheet. We must then in accordance with Financial Accounting Standards Board Statement No. 109, *Accounting for Income Taxes*, assess the realizability of the deferred tax assets. Accordingly, we have fully reserved our deferred tax asset primarily 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 March 31, 2006 we had goodwill of $14.8 million, which represents 2.9% of our total assets. We test goodwill annually for impairment and record an impairment charge if the carrying amount exceeds the fair value. We use a discounted cash flow approach as well as other methods to determine the fair value used in our test for impairment of goodwill. The results of this methodology depend upon a number of estimates and assumptions relating to cash flows, discount rates and other matters. Accordingly, such testing is subject to certain uncertainties, which could cause the fair value of goodwill to fluctuate from period to period.

Recent Accounting Pronouncements

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 expect to adopt SFAS 123(R) on July 1, 2006. The adoption of SFAS 123(R)'s fair value method may have a significant impact on our results of operations, although it will have no impact on our overall financial position. We will implement SFAS 123(R) using the "prospective" method.

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 March 31, 2006, we had $249.9 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 will be 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 March 31, 2006, we were not required to purchase interest rate caps. A hypothetical 10% increase in our credit facility's weighted average interest rate of 7.7% per annum for the nine months ended March 31, 2006 would correspondingly decrease our earnings and operating cash flows by approximately $1.5 million.

Our privately issued $21.7 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 $184.0 million (book value of $181.7 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

In December 2004, a lawsuit was served on the Company in *Gatan, et al., vs. Alarm One, Inc., et al.,* a case then pending in the Superior Court for Alameda County, California, and which was originally filed against Alarm One, Inc., a former authorized dealer of the Company, and others in 2003. The Company was served with a complaint seeking certification of a class of persons whose Alarm One contracts were assigned to the Company between March 1, 2000 and December 13, 2004. The operative complaint in this matter alleges claims by two named plaintiffs against the Company, as the claims filed by the two original named plaintiffs against Alarm One, Inc. have now been settled out of this case by Alarm One, Inc., and neither of the original named plaintiffs had contracts which were assigned to the Company. The complaint alleges that the Company has violated various California consumer protection statutes, including the California Home Solicitation Act, the California Unruh Act, the California Consumers Legal Remedies Act, and the California Unfair Competition Law, as well as breached the contracts, by failing to comply with various statute requirements or improperly enforcing the contracts in light of the various statute requirements. The new named plaintiffs seek damages, or alternatively, rescission or reformation of the contracts assigned to the Company, as well as compensatory damages, attorneys' fees, costs and expenses, punitive damages, and certain injunctive relief. Plaintiffs moved for class certification of their claims against the Company on December 1, 2005 and no class has been certified as yet. The Company believes it acted properly and lawfully in its dealings with its customers, and that most if not all of the claims asserted in the case have already been addressed by the prior settlement by Alarm One, Inc., or alternatively are the sole responsibility of Alarm One, Inc., and not the Company. As a result, the Company intends to vigorously defend and contest any and all issues or threatened claims in this matter. Management is currently unable to determine the outcome of the claims or to estimate the amount of potential loss. In accordance with SFAS No. 5, *Accounting for Contingencies*, the Company has not established a loss accrual associated with this claim.

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

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended June 30, 2005.

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

None.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

2.1	Recapitalization Agreement, dated July 14, 2004, among Monitronics International, Inc., Austin Ventures III-A, L.P., Austin Ventures III-B, L.P., Austin Ventures V, L.P., Austin Ventures V Affiliates Fund, Capital Resource Lenders II, L.P., ABRY Partners IV, L.P., ABRY Investment Partnership, L.P., Windward Capital Partners II, L.P., Windward Capital LP II, LLC, New York Life Capital Partners II, L.P., PPM America Private Equity Fund LP and The Northwestern Mutual Life Insurance Company. (1)
3.1	Restated Articles of Incorporation of Monitronics International, Inc. (2)
3.2	Bylaws of Monitronics International, Inc. (3)
10.1*	Third Amendment to Credit Agreement, dated March 28, 2006 by and among Monitronics International, Inc., the lenders (named therein), Bank of America, N.A., as successor by merger to Fleet National Bank, as administrative agent for each of the credit parties thereto, and Bank of America, N.A., as syndication agent for each of the other credit parties thereto.

10.2*	Waiver Agreement, dated March 28, 2006 by and between Monitronics International, Inc., and The Northwestern Mutual Life Insurance Company.
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.

(1) 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.
(2) 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) 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.
* Filed herewith.
** Furnished herewith.

SIGNATURES

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

MONITRONICS INTERNATIONAL, INC.

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

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

Date: May 12, 2006

Exhibit 10.1

THIRD AMENDMENT TO CREDIT AGREEMENT

This THIRD AMENDMENT TO CREDIT AGREEMENT (this ***"Amendment"***), dated as of March 29, 2006, amends certain provisions of the Credit Agreement dated as of August 25, 2003, as amended by a First Amendment to Credit Agreement dated as of July 14, 2004 and a Second Amendment to Credit Agreement dated as of March 28, 2005 (as so amended, and as further amended from time to time prior to the date hereof, the ***"Existing Credit Agreement"***) by and among Monitronics International, Inc., a Texas corporation (the ***"Borrower"***), the Lenders from time to time party thereto, Bank of America, N.A., as successor by merger to Fleet National Bank, as Administrative Agent for the Credit Parties, and Bank of America, N.A., as Syndication Agent for the Credit Parties.

W I T N E S S E T H:

WHEREAS, the Borrower has requested that the Credit Parties agree to certain amendments to and grant a certain consent under the Existing Credit Agreement; and

WHEREAS, upon and subject to the terms hereof, in accordance with Section 11.1 of the Credit Agreement (as defined below), the Credit Parties hereby agree to the amendments to and to grant the consent under the Existing Credit Agreement as specified herein;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows.

ARTICLE I
DEFINITIONS AND RULES OF INTERPRETATION

Each capitalized term that is used herein and is defined in the Existing Credit Agreement shall have the meaning specified therein unless such term is otherwise defined herein. In addition, the rules of interpretation set forth in Section 1.3 of the Existing Credit Agreement apply herein. As used herein, the term ***"Credit Agreement"*** shall mean the Existing Credit Agreement as amended by and through the date hereof, including by this Amendment, and as further amended, restated, modified, supplemented and/or extended from time to time. This Amendment is a Loan Document.

ARTICLE II
AMENDMENTS, CONSENTS, ETC.

Section 2.1. Amendments to Schedules. The following Schedules amend, replace and supersede the corresponding Schedules attached to the Existing Credit Agreement:

Schedule 4.3	Consents
Schedule 4.5(a)	Properties
Schedule 4.5(b)	Intellectual Property
Schedule 4.6	Proceedings
Schedule 4.8	Material Agreements and Licenses
Schedule 4.12	Taxes
Schedule 4.13	Ownership of the Borrower and its Subsidiaries
Schedule 4.16	Insurance
Schedule 4.20	Depository and Other Accounts

Section 2.2. Amendments to Section 1.1. Section 1.1 of the Existing Credit Agreement is hereby amended as follows:

(a) ***Additional Definition.*** The following definition is hereby added to Section 1.1 of the Credit Agreement in alphabetical order:

"***'Third Amendment Closing Date'*** shall mean the date upon which the Third Amendment to Credit Agreement among the Borrower and the Credit Parties shall have been executed by each of the parties thereto and all conditions set forth in Section 3.3 of such Third Amendment to Credit Agreement have been satisfied or waived."

(b) ***Amendment to Definition of "Change in Management".*** The definition of the term "Change in Management" is hereby amended by deleting each reference to "James R. Hull" or "Mr. Hull" and inserting in lieu thereof "Mike Haislip" or "Mr. Haislip", as appropriate.

Section 2.3. Amendment to Section 4.6. Section 4.6 of the Existing Credit Agreement is hereby amended by deleting each reference to the term "Second Amendment Closing Date" appearing therein and inserting in lieu thereof the term "Third Amendment Closing Date".

Section 2.4. Amendment to Section 4.8(a). Section 4.8(a) of the Existing Credit Agreement is hereby amended by deleting the term "Second Amendment Closing Date" appearing therein and inserting in lieu thereof the term "Third Amendment Closing Date".

Section 2.5. Amendment to Section 4.13(a). Section 4.13(a) of the Existing Credit Agreement is hereby amended by deleting the term "Second Amendment Closing Date" appearing therein and inserting in lieu thereof the term "Third Amendment Closing Date".

Section 2.6. Amendment to Section 4.16. Section 4.16 of the Existing Credit Agreement is hereby amended by deleting each reference to the term "Second Amendment Closing Date" appearing therein and inserting in lieu thereof the term "Third Amendment Closing Date".

Section 2.7. Amendment to Section 4.21. Section 4.21 of the Existing Credit Agreement is hereby amended by deleting the term "Second Amendment Closing Date" appearing therein and inserting in lieu thereof the term "Third Amendment Closing Date".

Section 2.8. Amendment to Section 8.17. Section 8.17 of the Existing Credit Agreement is hereby amended by adding after the phrase "Six Million Dollars ($6,000,000)" the phrase "; *provided, further,* that notwithstanding the foregoing, for the fiscal year ending June 30, 2006, the Borrower and its Subsidiaries may make Capital Expenditures in an aggregate amount up to Six Million Five Hundred Thousand Dollars ($6,500,000) and the Borrower may carry forward any permitted but unused Capital Expenditures from the fiscal year ended June 30, 2006 to the fiscal year ended June 30, 2007."

Section 2.9. Consent. The Required Lenders hereby grant the following consent under the Existing Credit Agreement (the ***"Consent"***):

(a) The retirement of James R. Hull as Chief Executive Officer and President of the Borrower without the appointment within one hundred eighty (180) days of a permanent replacement who is reasonably acceptable to the Required Lenders, would constitute an Event of Default under Section 9.1(o) of the Existing Credit Agreement. Subject to the terms and conditions set forth in this Amendment, the Required Lenders hereby consent solely to the appointment of Michael R. Haislip as Chief Executive Officer and President of the Borrower effective as of March 31, 2006.

(b) The Borrower acknowledges and agrees that the foregoing provisions of this Section 2.9 relate solely to the Consent specified in Section 2.9(a) hereof and shall in no way be deemed or construed as a consent by the Credit Parties to any other actions of the Borrower that would cause a Default or Event of Default under the Credit Agreement or any other Loan Document. The Credit Parties expressly reserve the full extent of their rights under the Credit Agreement, the other Loan Documents and applicable law in respect of any other actions by the Borrower not specifically consented to herein.

ARTICLE III
REPRESENTATIONS AND WARRANTIES, COVENANTS, CONDITIONS PRECEDENT, ETC.

Section 3.1. Confirmation of Representations, Warranties and Covenants, Etc. The Borrower, by execution of this Amendment, certifies to the Credit Parties that:

(a) Each of the representations and warranties set forth in the Credit Agreement and the other Loan Documents is true and correct in all material respects on and as of the date hereof, except to the extent such representations and warranties expressly relate to an earlier date, as if fully set forth in this Amendment and that, as of the date hereof, no Default or Event of Default has occurred and is continuing under the Credit Agreement or any other Loan Document;

(b) The Borrower is in compliance in all material respects with all of the terms and provisions set forth in the Credit Agreement on its part to be observed or performed on or prior to the date of this Amendment; and

(c) Since June 30, 2005, there has been no change in the assets or liabilities or in the financial or other condition of the Borrower or any of its Subsidiaries that could have a Material Adverse effect.

Section 3.2. Authorization, Validity and Enforceability. This Amendment has been duly authorized, executed and delivered by the Borrower and constitutes, and the Credit Agreement, and each of the other Loan Documents, as amended by and through the date hereof, constitute, legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of rights of creditors generally and except to the extent that enforcement of rights and remedies set forth therein may be limited by equitable principles (regardless of whether enforcement is considered in a court of law or a proceeding in equity).

Section 3.3. Conditions Precedent. Prior to or concurrently with the execution of this Amendment, and as a condition to the obligation of the Credit Parties to execute this Amendment:

(a) The Administrative Agent shall have received a certificate, dated the Third Amendment Closing Date, of the Secretary of the Borrower:

(i) attaching a true and complete copy of the resolutions of its Board of Directors and of all other documents evidencing all necessary corporate action (in form and substance satisfactory to the Administrative Agent) taken to authorize the execution, delivery and performance of this Amendment and each of the other documents and instruments contemplated hereby;

(ii) setting forth the incumbency of its officers who are authorized to and who sign this Amendment, including therein a signature specimen of such officers; and

(iii) attaching a certificate of good standing of the Secretary of State of the jurisdiction of its formation.

(b) The Credit Parties shall have received all fees and other amounts due and payable to the Credit Parties, and their respective Affiliates, under the Credit Agreement, the other Loan Documents or any separate letter agreement or other arrangement(s) among the Borrower and the Administrative Agent and Syndication Agent to the extent that such fees or other amounts are payable on or prior to the Third Amendment Closing

Date, including, to the extent invoiced with reasonable detail, reimbursement or payment of the fees and disbursements of Special Counsel and all other out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(c) The Administrative Agent shall have received a waiver executed by the Borrower and NML under the Subordinated Note and Warrant Purchase Agreement, dated January 18, 2002, as amended, between the Borrower and NML in form and substance satisfactory to the Administrative Agent.

(d) No injunction, writ, restraining order, or other order of any nature prohibiting, directly or indirectly, the consummation of the transactions contemplated herein or by the other Loan Documents shall have been issued by any Governmental Authority against the Borrower, the Administrative Agent or any Lender.

(e) The Administrative Agent shall have received all other information and documents which the Administrative Agent or its counsel may reasonably have requested in connection with the transactions contemplated by this Amendment, such information and documents where appropriate to be certified by one of the Borrower's officers or a Governmental Authority.

ARTICLE IV
MISCELLANEOUS PROVISIONS

Section 4.1. Survival. Except as expressly provided herein, this Amendment does not constitute a waiver of or amendment to any provision of the Existing Credit Agreement or any of the other Loan Documents and does not affect any other term, condition or provision of the Existing Credit Agreement or any of the other Loan Documents, each of which shall continue in full force and effect.

Section 4.2. Governing Law. This Amendment and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the laws of the State of New York (without giving effect to the principles thereof relating to conflicts of law).

Section 4.3. Counterparts. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, including facsimile counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument.

Section 4.4. Headings. The headings of the several Articles, Sections and subsections of this Amendment are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Amendment.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Amendment as of the date first above written.

MONITRONICS INTERNATIONAL, INC.

By: /s/ Stephen M. Hedrick
Name: Stephen M. Hedrick
Title: Vice President-Finance

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/ John F. Lynch
Name: John F. Lynch
Title: Senior Vice President

BANK OF AMERICA, N.A.,
as Syndication Agent and Lender

By: ____________________
Name:
Title:

[Counterpart signature pages of Lenders follow]

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Amendment as of the date first above written.

MONITRONICS INTERNATIONAL, INC.

By: /s/ Stephen M. Hedrick
Name: Stephen M. Hedrick
Title: Vice President - Finance

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/ Madeline A. Ferrari
Name: Madeline A. Ferrari
Title: Vice President

BANK OF AMERICA, N.A.,
as Syndication Agent and Lender

By: /s/ John F. Lynch
Name: John F. Lynch
Title: Senior Vice President

[Counterpart signature pages of Lenders follow]

LENDER:

Lasalle Bank National Association

By: /s/ Mark J. Melendes
Name: Mark J Melendes
Title: First Vice President

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

U.S. Bank National Association
(Name of Institution)

By: /s/ Gail F. Scannell
Name: Gail F. Scannell
Title: Vice President

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

J.P. MORGAN CHASE BANK, N.A.
(Name of Institution)

By: /s/ Kristen Whitehurst
Name: Kristen Whitehurst
Title: Vice President

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

National City Bank
(Name of Institution)

By: /s/ Christian Kalmbach
Name: Christian Kalmbach
Title: Senior Vice President

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

Keybank National Association

By: /s/ Joanne K. Bramanti
Name: Joanne K. Bramanti
Title: Senior Vice President

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

Trimaran CLO V, Ltd.
By Trimaran Advisors, L.L.C.

By: /s/ David M. Milison
Name: David M. Millison
Title: Managing Director

[Counterpart Signature Page to Third Amendment to Credit Agreement]

GSC PARTNERS CDO FUND IV, LIMITED
By: GSCP (NJ), L.P., as Collateral Manager

By: /s/ Alexander B. Wright
Name: Alex Wright
Title: Authorized Signatory

GSC PARTNERS GEMINI FUND LIMITED
By: GSCP (NJ), L.P., as Collateral Monitor
By: GSCP (NJ), Inc., its General Partner

By: /s/ Alexander B. Wright
Name: Alex Wright
Title: Authorized Signatory

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

GALAXY IV CLO, LTD.
By: AIG Global Investment Corp.
its Collateral Manager

By: /s/ W. Jeffrey Baxter
Name: W. Jeffrey Baxter
Title: Managing Director

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

SunAmerica Life Insurance Company
By: AIG Global Investment Corp., Inc.
its Investment Advisor

By: /s/ W. Jeffrey Baxter
Name: W. Jeffrey Baxter
Title: Managing Director

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

Saturn Trust
By: AIG Global Investment Corp., Inc.
its Investment Advisor

By: /s/ W. Jeffrey Baxter
Name: W. Jeffrey Baxter
Title: Managing Director

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

GALAXY CLO 1999-1, Ltd.
By: AIG Global Investment Corp., Inc.
Its Collateral Manager

By: /s/ W. Jeffrey Baxter
Name: W. Jeffrey Baxter
Title: Managing Director

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

Galaxy CLO 2003-1, Ltd.
By: AIG Global Investment Corp., Inc.
Its Collateral Manager

By: /s/ W. Jeffrey Baxter
Name: W. Jeffrey Baxter
Title: Managing Director

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

Galaxy III CLO , Ltd.
By: AIG Global Investment Corp.
its Collateral Manager

By: /s/ W. Jeffrey Baxter
Name: W. Jeffrey Baxter
Title: Managing Director

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

Galaxy V CLO, Ltd.
By: AIG Global Investment Corp.
its Collateral Manager

By: /s/ W. Jeffrey Baxter
Name: W. Jeffrey Baxter
Title: Managing Director

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

NewStar CP Funding LLC.

By: NewStar Financial, Inc., its Designated manager

By:	/s/ Walter J. Marullo
Name:	Walter J. Marullo
Title:	Director

NewStar Trust 2005-1

By: NewStar Financial, Inc., its Servicer and Attorney in Fact

By:	/s/ Walter J. Marullo
Name:	Walter J. Marullo
Title:	Director

[Counterpart Signature Page to Third Amendment to Credit Agreement]

LENDER:

Atlas Loan Funding 3, LLC
By: Atlas capital Funding, Ltd.
By: Structured Asset Investors, LLC
Its Investment Manager

By: /s/ Diana M. Himes
Name: Diana M. Himes
Title: Associate

[Counterpart Signature Page to Third Amendment to Credit Agreement]

Exhibit 10.2

MONITRONICS INTERNATIONAL, INC.

WAIVER AGREEMENT

Dated as of March 28, 2006

As To

SUBORDINATED NOTE AND WARRANT PURCHASE AGREEMENT
Dated as of January 18, 2002

Re: 14.5% Subordinated Notes due March 1, 2010
and
Warrants

WAIVER AGREEMENT

This Waiver Agreement (the "Agreement") dated as of March 28, 2006 is made by and between Monitronics International, Inc. (the "Company") and The Northwestern Mutual Life Insurance Company ("NML").

RECITALS:

A. The Company and NML have entered into a Subordinated Note and Warrant Purchase Agreement dated as of January 18, 2002 (as amended, the "Purchase Agreement;" terms defined in the Purchase Agreement which are used herein shall have the same meaning as are set forth in the Purchase Agreement for such terms unless otherwise defined herein).

B. The Company has requested that NML waive certain provisions of the Purchase Agreement and NML is willing to grant such a waiver, but only on the terms set forth in this Agreement.

AGREEMENT:

In consideration of the recitals set forth above, the terms contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Waiver. NML hereby waives the Company's obligations under Section 7.02(k) of the Purchase Agreement to limit the amount of Capital Expenditures made by the Company and its Subsidiaries during the Company's fiscal year ending June 30, 2006 provided that the aggregate amount of Capital Expenditures made by the Company and its Subsidiaries during the Company's fiscal year ending June 30, 2006 does not exceed $6,500,000 and the Company may carry forward any permitted but unused Capital Expenditures from the fiscal year ended June 30, 2006 to the fiscal year ended June 30, 2007.

2. Consent. The retirement of James R. Hull as Chief Executive Officer and President of the Company without the appointment of a replacement within 120 days who is satisfactory to NML in its reasonable judgment would constitute a Change in Control resulting in the obligation of the Company to make an offer to prepay the Notes under Section 2.06(a) of the Purchase Agreement. Subject to the terms and conditions set forth in this Agreement, NML hereby consents to the appointment of Michael R. Haislip as Chief Executive Officer and President of the Company effective as of March 31, 2006.

3. Representations and Warranties. The Company represents and warrants that: (A) the execution and delivery by the Company of this Agreement (1) are within its corporate powers, (2) have been duly authorized, (3) are not in contravention of the terms of its constitutive documents, or of any contract, instrument, indenture or other agreement or undertaking to which it is a party or by which it or any of its property is bound or any law, judgment, decree or order applicable to it, and (4) do not require any governmental consent, registration or approval or any filing with or notice to any governmental entity or other third party; (B) this Agreement, and the Purchase Agreement as modified hereby, constitute the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by (1) bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and (2) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); (C) since June 30, 2005, there has been no change in the assets or liabilities or in the financial or other condition of the Company or any of its Subsidiaries that could reasonably be expected to have a Material Adverse Effect; and (D) as of the date hereof (and, after giving effect hereto) there exists no Default or Event of Default.

4. Miscellaneous.

4A. Ratification. The Company each hereby ratifies, approves and reaffirms the provisions set forth in the Purchase Agreement, and, except as expressly modified hereby, the Purchase Agreement remains in full force and effect.

4B. No Further Waiver. Except as specifically stated herein, the execution, delivery and effectiveness of this Agreement shall not operate as a waiver of any right, power or remedy of NML, nor constitute an amendment or waiver of, or consent to any departure from, any provision of the Purchase Agreement or any other document, instrument or agreement executed or delivered in connection therewith.

4C. Fees. The Company agrees to pay on demand all costs and expenses of NML in connection with the preparation, execution and delivery of this Agreement and any and all other instruments and documents delivered hereunder.

4D. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York.

4E. Headings. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

4F. Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery by any party of telecopied copies of executed counterparts hereof shall constitute execution and delivery hereof by such party.

[Signature page follows]

IN WITNESS WHEREOF, this Agreement has been duly executed as of the day and year first above written.

MONITRONICS INTERNATIONAL, INC.

By: /s/ Michael Meyers
Name: Michael Meyers
Title: Vice President and Chief Financial Officer

THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY

By: /s/ Mark E. Kishler
Name: Mark E. Kishler
Title: Its Authorized Representative

[Signature Page to Waiver Agreement]

CERTIFICATIONS

I, Michael R. Haislip, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Monitronics International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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: May 12, 2006

/s/ Michael R. Haislip

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

EXHIBIT 31.2

CERTIFICATIONS

I, Michael R. Meyers, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Monitronics International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of 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: May 12, 2006

/s/ Michael R. Meyers

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

EXHIBIT 32.1

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

In connection with the Quarterly Report of Monitronics International, Inc. (the “Company”) on Form 10-Q for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael R. Haislip, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: May 12, 2006

EXHIBIT 32.2

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

In connection with the Quarterly Report of Monitronics International, Inc. (the "Company") on Form 10-Q for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael R. Meyers, Chief Financial Officer and Vice President of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: May 12, 2006