

Edgar Filing: Ascent Capital Group, Inc. - Form 10-Q

Ascent Capital Group, Inc.
Form 10-Q
November 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from to

Commission File Number 001-34176

ASCENT CAPITAL GROUP, INC.
(Exact name of Registrant as specified in its charter)

State of Delaware	26-2735737
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5251 DTC Parkway, Suite 1000	
Greenwood Village, Colorado	80111
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code: (303) 628-5600	

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The number of outstanding shares of Ascent Capital Group, Inc.'s common stock as of October 24, 2014 was:

Series A common stock 13,395,834 shares; and
Series B common stock 384,086 shares.

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Item 1. Financial Statements.

ASCENT CAPITAL GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

Amounts in thousands, except share amounts

(unaudited)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$50,594	\$44,701
Restricted cash	91	40
Marketable securities, at fair value	131,531	129,496
Trade receivables, net of allowance for doubtful accounts of \$2,026 in 2014 and \$1,937 in 2013	13,916	13,019
Deferred income tax assets, net	7,128	7,128
Income taxes receivable	—	7
Prepaid and other current assets	6,863	8,400
Assets held for sale	18,935	1,231
Total current assets	229,058	204,022
Property and equipment, net of accumulated depreciation of \$29,537 in 2014 and \$35,528 in 2013	35,700	56,528
Subscriber accounts, net of accumulated amortization of \$677,889 in 2014 and \$503,497 in 2013	1,366,250	1,340,954
Dealer network and other intangible assets, net of accumulated amortization of \$49,132 in 2014 and \$34,297 in 2013	49,800	64,635
Goodwill	527,502	527,502
Other assets, net	28,859	32,152
Total assets	\$2,237,169	\$2,225,793
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$6,871	\$7,096
Accrued payroll and related liabilities	5,515	3,602
Other accrued liabilities	42,526	34,431
Deferred revenue	14,719	14,379
Holdback liability	18,502	19,758
Current portion of long-term debt	9,166	9,166
Liabilities of discontinued operations	6,354	7,136
Total current liabilities	103,653	95,568
Non-current liabilities:		
Long-term debt	1,626,079	1,572,098
Long-term holdback liability	6,239	6,698
Derivative financial instruments	3,330	2,013
Deferred income tax liability, net	19,441	16,851
Other liabilities	15,311	17,808
Total liabilities	1,774,053	1,711,036
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 5,000,000 shares; no shares issued	—	—
	134	137

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Series A common stock, \$0.01 par value. Authorized 45,000,000 shares; issued and outstanding 13,396,391 and 13,672,674 shares at September 30, 2014 and December 31, 2013, respectively

Series B common stock, \$0.01 par value. Authorized 5,000,000 shares; issued and outstanding 384,212 shares both at September 30, 2014 and December 31, 2013

Series C common stock, \$0.01 par value. Authorized 45,000,000 shares; no shares issued

	4	4
	—	—
Additional paid-in capital	1,452,944	1,470,056
Accumulated deficit	(988,314)	(957,179)
Accumulated other comprehensive income (loss), net	(1,652)	1,739
Total stockholders' equity	463,116	514,757
Total liabilities and stockholders' equity	\$2,237,169	\$2,225,793

See accompanying notes to condensed consolidated financial statements.

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ASCENT CAPITAL GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

Amounts in thousands, except per share amounts

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net revenue	\$136,027	115,844	\$403,587	318,275
Operating expenses:				
Cost of services	24,835	20,155	69,907	50,951
Selling, general, and administrative, including stock-based compensation	24,336	23,870	77,609	65,116
Amortization of subscriber accounts, dealer network and other intangible assets	64,341	55,746	189,382	146,059
Depreciation	2,525	2,305	7,851	6,360
Restructuring charges	51	402	969	402
Gain on disposal of operating assets, net	—	(17)	(69)	(5,473)
	116,088	102,461	345,649	263,415
Operating income	19,939	13,383	57,938	54,860
Other income (expense), net:				
Interest income	822	909	2,542	2,816
Interest expense	(29,894)	(26,022)	(87,761)	(66,650)
Other income (expense), net	(10)	504	1,607	1,962
	(29,082)	(24,609)	(83,612)	(61,872)
Loss from continuing operations before income taxes	(9,143)	(11,226)	(25,674)	(7,012)
Income tax benefit (expense) from continuing operations	(1,849)	3,571	(5,207)	1,883
Net loss from continuing operations	(10,992)	(7,655)	(30,881)	(5,129)
Discontinued operations:				
Earnings (loss) from discontinued operations	(133)	(83)	(254)	256
Income tax expense from discontinued operations	—	—	—	(40)
Earnings (loss) from discontinued operations, net of income tax	(133)	(83)	(254)	216
Net loss	(11,125)	(7,738)	(31,135)	(4,913)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(305)	351	(107)	(17)
Unrealized holding losses on marketable securities, net	(1,646)	(1,024)	(1,500)	(3,176)
Unrealized gain (loss) on derivative contracts, net	4,355	(4,526)	(1,784)	7,404
Total other comprehensive income (loss), net of tax	2,404	(5,199)	(3,391)	4,211
Comprehensive loss	\$(8,721)	(12,937)	\$(34,526)	(702)
Basic and diluted earnings (loss) per share:				
Continuing operations	\$(0.81)	(0.54)	\$(2.26)	(0.37)
Discontinued operations	(0.01)	(0.01)	(0.02)	0.02
Net loss	\$(0.82)	(0.55)	\$(2.28)	(0.35)

See accompanying notes to condensed consolidated financial statements.

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ASCENT CAPITAL GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Amounts in thousands

(unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$(31,135)	(4,913)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss (earnings) from discontinued operations, net of income tax	254	(216)
Amortization of subscriber accounts, dealer network and other intangible assets	189,382	146,059
Depreciation	7,851	6,360
Stock-based compensation	5,141	5,535
Deferred income tax expense (benefit)	2,597	(4,092)
Gain on disposal of operating assets, net	(69)	(5,473)
Long-term debt amortization	3,255	1,263
Other non-cash activity, net	8,679	7,634
Changes in assets and liabilities:		
Trade receivables	(6,657)	(6,394)
Prepaid expenses and other assets	1,612	2,617
Payables and other liabilities	8,294	21,549
Operating activities from discontinued operations, net	(1,036)	(278)
Net cash provided by operating activities	188,168	169,651
Cash flows from investing activities:		
Capital expenditures	(5,035)	(6,314)
Cost of subscriber accounts acquired	(202,429)	(174,527)
Cash paid for acquisition, net of cash acquired	—	(479,795)
Purchases of marketable securities	(3,535)	(21,770)
Proceeds from sale of marketable securities	—	15,384
Increase in restricted cash	(51)	(40)
Proceeds from the disposal of operating assets	241	12,886
Other investing activities	(436)	—
Net cash used in investing activities	(211,245)	(654,176)
Cash flows from financing activities:		
Proceeds from long-term debt	139,500	594,875
Payments on long-term debt	(88,774)	(90,456)
Payments of financing costs	—	(11,079)
Stock option exercises	719	10
Purchases and retirement of common stock	(22,475)	—
Bond hedge and warrant transactions, net	—	(6,107)
Other financing activities	—	(200)
Net cash provided by financing activities	28,970	487,043
Net increase in cash and cash equivalents	5,893	2,518
Cash and cash equivalents at beginning of period	44,701	78,422
Cash and cash equivalents at end of period	\$50,594	80,940
Supplemental cash flow information:		
State taxes paid, net	\$2,644	2,350
Interest paid	67,314	49,324

See accompanying notes to condensed consolidated financial statements.

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ASCENT CAPITAL GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders' Equity

Amounts in thousands

(unaudited)

	Preferred stock	Common stock Series A	Series B	Series C	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
Balance at December 31, 2013	\$—	137	4	—	1,470,056	(957,179)	1,739	514,757
Net loss	—	—	—	—	—	(31,135)	—	(31,135)
Other comprehensive loss	—	—	—	—	—	—	(3,391)	(3,391)
Stock-based compensation	—	—	—	—	5,141	—	—	5,141
Stock awards and option exercises	—	—	—	—	719	—	—	719
Value of shares withheld for tax liability	—	—	—	—	(500)	—	—	(500)
Purchases and retirement of common stock	—	(3)	—	—	(22,472)	—	—	(22,475)
Balance at September 30, 2014	\$—	134	4	—	1,452,944	(988,314)	(1,652)	463,116

See accompanying notes to condensed consolidated financial statements.

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ASCENT CAPITAL GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(1) Basis of Presentation

On July 7, 2011, Ascent Media Corporation merged with its direct wholly owned subsidiary, Ascent Capital Group, Inc., for the purpose of changing its name to Ascent Capital Group, Inc. The accompanying Ascent Capital Group, Inc. ("Ascent Capital" or the "Company") condensed consolidated financial statements represent the financial position and results of operations of Ascent Capital and its consolidated subsidiaries. Monitronics International, Inc. ("Monitronics") is the primary, wholly owned, operating subsidiary of the Company. On August 16, 2013, Monitronics acquired all of the equity interests of Security Networks LLC ("Security Networks") and certain affiliated entities (the "Security Networks Acquisition"). Monitronics provides security alarm monitoring and related services to residential and business subscribers throughout the United States and parts of Canada. Monitronics monitors signals arising from burglaries, fires, medical alerts and other events through security systems installed by independent dealers at subscribers' premises.

The unaudited interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission's (the "SEC") Regulation S-X. Accordingly, it does not include all of the information required by generally accepted accounting principles in the United States ("U.S. GAAP") for complete financial statements. The Company's unaudited condensed consolidated financial statements as of September 30, 2014, and for the three and nine months ended September 30, 2014 and 2013, include Ascent Capital and all of its direct and indirect subsidiaries. The accompanying interim condensed consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the Ascent Capital Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC on February 27, 2014 (the "2013 Form 10-K").

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

(2) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606). Under the update, revenue will be recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU is effective for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the impact that adopting this ASU will have on its financial position, results of operations and cash flows.

(3) Security Networks Acquisition

On August 16, 2013 (the "Closing Date"), Monitronics acquired all of the equity interests of Security Networks and certain affiliated entities. The purchase price (the "Security Networks Purchase Price") of \$500,557,000 consisted of \$481,834,000 in cash and 253,333 shares of Ascent Capital's Series A common stock, par value \$0.01 per share (the "Series A Common Stock"), with a Closing Date fair value of \$18,723,000. The Security Networks Purchase Price includes post-closing adjustments of \$1,057,000.

The Security Networks Acquisition was accounted for as a business combination utilizing the acquisition method in accordance with FASB Accounting Standards Codification ("ASC") Topic 805, Business Combinations ("FASB ASC Topic 805"). Under the acquisition method of accounting, the Security Networks Purchase Price has been allocated to Security Networks' tangible and identifiable intangible assets acquired and liabilities assumed based on their estimates of fair value. In connection with the Security Networks Acquisition, the Company recognized goodwill of \$177,289,000.

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The Company's 2013 Form 10-K included an initial allocation of the purchase price based on preliminary data. Subsequent to filing the Company's 2013 Form 10-K, an adjustment was made to increase goodwill by \$989,000, which is reflected in the revised December 31, 2013 consolidated balance sheet in accordance with FASB ASC Topic 805. The increase to goodwill was related to adjustments to the deferred income tax liabilities acquired as a result of obtaining Security Networks' final short period federal and state income tax returns for 2013, which were filed in the second quarter of 2014. There were additional adjustments to acquired deferred tax liabilities recognized in the fourth quarter of 2013 that were reflected in the consolidated financial statements in the Company's 2013 Form 10-K. The total increase to the acquired deferred income tax liabilities for these adjustments resulted in a \$4,823,000 reduction in Monitronics' valuation allowance. In accordance with FASB ASC Topic 805, the corresponding decrease in income tax expense from continuing operations related to the reduction in valuation allowance has been retrospectively applied to the revised three and nine months ended September 30, 2013 consolidated statements of operations and comprehensive income (loss).

The following table includes unaudited pro forma information for the Company, which includes the historical operating results of Security Networks prior to ownership by the Company. This pro forma information gives effect to certain adjustments, including increased amortization to reflect the fair value assigned to the subscriber accounts and dealer network and other intangible assets acquired and increased interest expense relating to the debt transactions entered into to fund the Security Networks Acquisition. The pro forma results assume that the Security Networks Acquisition and the debt transactions had occurred on January 1, 2012 for all periods presented. They are not necessarily indicative of the results of operations that would have occurred if the acquisition had been made at the beginning of the periods presented or that may be obtained in the future.

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
	(amounts in thousands, except per share amounts)	
As reported:		
Net revenue	\$ 115,844	\$ 318,275
Net loss from continuing operations	(7,655)	(5,129)
Basic and diluted net loss from continuing operations per share	\$(0.54)	\$(0.37)
Supplemental pro forma:		
Net revenue	\$ 131,951	\$ 382,789
Net loss from continuing operations	(9,530)	(23,758)
Basic and diluted net loss from continuing operations per share	\$(0.67)	\$(1.68)

(4) Investments in Marketable Securities

Ascent Capital owns marketable securities primarily consisting of diversified corporate bond funds. The following table presents the activity of these investments, which have all been classified as available-for-sale securities (amounts in thousands):

	Nine Months Ended September 30,	
	2014	2013
Beginning balance	\$ 129,496	142,587
Purchases	3,535	21,770
Sales at cost basis (a)	—	(15,286)
Realized and unrealized losses, net	(1,500)	(3,176)
Ending balance	\$ 131,531	145,895

(a) For the nine months ended September 30, 2013, total proceeds from the sale of marketable securities were \$15,384,000 resulting in a pre-tax gain of \$98,000.

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The following table presents the changes in Accumulated other comprehensive income (loss) on the condensed consolidated balance sheets for unrealized and realized gains and losses of the investments in marketable securities (amounts in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Accumulated other comprehensive income (loss)				
Beginning balance	\$1,644	515	\$1,498	2,667
Unrealized losses, net of income tax of \$0	(1,646)	(926)	(1,500)	(3,078)
Realized gain recognized into earnings, net of income tax of \$0	—	(98)	—	(98)
(a)				
Ending balance	\$(2)	(509)	\$(2)	(509)

(a) The realized gain of the sale of marketable securities for the three and nine months ended September 30, 2013 is included in Other income, net on the consolidated statements of operations and comprehensive income (loss).

(5) Assets Held for Sale

In the third quarter of 2014, the Company reclassified \$17,704,000 of land and building, net of accumulated depreciation, to Assets held for sale on the condensed consolidated balance sheet. At September 30, 2014, the Company has \$18,935,000 classified as assets held for sale on the condensed consolidated balance sheet. The Company currently expects to complete the sale of these real estate properties during the next twelve months.

(6) Other Accrued Liabilities

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

	September 30, 2014	December 31, 2013
Interest payable	\$27,771	\$15,455
Income taxes payable	2,669	2,744
Legal accrual	1,319	1,378
Other	10,767	14,854
Total Other accrued liabilities	\$42,526	\$34,431

(7) Long-Term Debt

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

	September 30, 2014	December 31, 2013
Ascent Capital 4.00% Convertible Senior Notes due July 15, 2020	\$76,664	\$74,189
Monitronics 9.125% Senior Notes due April 1, 2020	585,259	585,282
Monitronics term loans, mature March 23, 2018, LIBOR plus 3.25%, subject to a LIBOR floor of 1.00% (a)	896,222	902,293
Monitronics \$225 million revolving credit facility, matures December 22, 2017, LIBOR plus 3.75%, subject to a LIBOR floor of 1.00% (a)	77,100	19,500
	1,635,245	1,581,264
Less current portion of long-term debt	(9,166)	(9,166)
Long-term debt	\$1,626,079	\$1,572,098

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

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Convertible Notes

On July 17, 2013, Ascent Capital issued \$103,500,000 in aggregate principal amount of 4.00% convertible senior notes due July 15, 2020 (the “Convertible Notes”) in an offering registered under the Securities Act of 1933, as amended. The Convertible Notes are convertible, under certain circumstances, into cash, shares of Series A Common Stock or any combination thereof at Ascent Capital’s election. The Convertible Notes mature on July 15, 2020 and bear interest at a rate per annum of 4.00%. Interest on the Convertible Notes is payable semi-annually on January 15 and July 15 of each year.

Holders of the Convertible Notes (“Noteholders”) have the right, at their option, to convert all or any portion of such Convertible Notes, subject to the satisfaction of certain conditions, at an initial conversion rate of 9.7272 shares of Series A Common Stock per \$1,000 principal amount of Convertible Notes (subject to adjustment in certain situations), which represents an initial conversion price per share of Series A Common Stock of approximately \$102.804 (the “Conversion Price”). Ascent Capital is entitled to settle any such conversion by delivery of cash, shares of Series A Common Stock or any combination thereof at Ascent’s election. In addition, Noteholders have the right to submit Convertible Notes for conversion, subject to the satisfaction of certain conditions, in the event of certain corporate transactions.

In the event of a fundamental change (as such term is defined in the indenture governing the Convertible Notes) at any time prior to the maturity date, each Noteholder shall have the right, at such Noteholder’s option, to require Ascent Capital to repurchase for cash any or all of such Noteholder’s Convertible Notes on the repurchase date specified by Ascent Capital at a repurchase price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, including unpaid additional interest, if any, unless the repurchase date occurs after an interest record date and on or prior to the related interest payment date, as specified in the indenture.

The Convertible Notes are within the scope of FASB ASC Topic 470 Subtopic 20, Debt with Conversion and Other Options (“FASB ASC 470-20”), and as such are required to be separated into a liability and equity component. The carrying amount of the liability component is calculated by measuring the fair value of a similar liability (including any embedded features other than the conversion option) that does not have an associated conversion option. The carrying amount of the equity component is determined by deducting the fair value of the liability component from the initial proceeds ascribed to the Convertible Notes as a whole. The excess of the principal amount of the liability component over its carrying amount, treated as a debt discount, is amortized to interest cost over the expected life of a similar liability that does not have an associated conversion option using the effective interest method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification as prescribed in FASB ASC 815 Subtopic 40, Contracts in an Entity’s Own Equity (“FASB ASC 815-40”). Accordingly, upon issuance, the Company estimated fair value of the liability component as \$72,764,000, with the remaining excess amount of \$30,736,000 allocated to the equity component.

The Convertible Notes are presented on the consolidated balance sheet as follows (amounts in thousands):

	As of September 30, 2014	As of December 31, 2013
Principal	\$ 103,500	\$ 103,500
Unamortized discount	(26,836)	(29,311)
Carrying value	\$ 76,664	\$ 74,189

The Company is using an effective interest rate of 10.0% to calculate the accretion of the debt discount, which is being recorded as interest expense over the expected remaining term to maturity of the Convertible Notes. The Company recognized contractual interest expense of \$1,035,000 and \$3,105,000 on the Convertible Notes for the

three and nine months ended September 30, 2014, respectively. The Company recognized contractual interest expense of \$862,500 for both the three and nine months ended September 30, 2013. The Company amortized \$845,000 and \$2,475,000 of the Convertible Notes debt discount into interest expense for the three and nine months ended September 30, 2014, respectively. The Company amortized \$640,000 of the Convertible Notes debt discount into interest expense for both the three and nine months ended September 30, 2013.

Hedging Transactions Relating to the Offering of the Convertible Notes

In connection with the issuance of the Convertible Notes, Ascent Capital entered into separate privately negotiated purchased call options (the “Bond Hedge Transactions”). The Bond Hedge Transactions require the counterparties to offset Series A Common Stock deliverable or cash payments made by Ascent Capital upon conversion of the Convertible Notes in the event that the volume-weighted average price of the Series A Common Stock on each trading day of the relevant valuation period is

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greater than the strike price of \$102.804, which corresponds to the Conversion Price of the Convertible Notes. The Bond Hedge Transactions cover, subject to anti-dilution adjustments, approximately 1,007,000 shares of Series A Common Stock, which is equivalent to the number of shares initially issuable upon conversion of the Convertible Notes, and are expected to reduce the potential dilution with respect to the Series A Common Stock, and/or offset potential cash payments Ascent Capital is required to make in excess of the principal amount of the Convertible Notes upon conversion.

Concurrently with the Bond Hedge Transactions, Ascent Capital also entered into separate privately negotiated warrant transactions with each of the call option counterparties (the “Warrant Transactions”). The warrants are European options, and are exercisable in tranches on consecutive trading days starting after the maturity of the Convertible Notes. The warrants cover the same initial number of shares of Series A Common Stock, subject to anti-dilution adjustments, as the Bond Hedge Transactions. The Warrant Transactions require Ascent Capital to deliver Series A Common Stock or make cash payments to the counterparties on each expiration date with a value equal to the number of warrants exercisable on that date times the excess of the volume-weighted average price of the Series A Common Stock over the strike price of \$118.62, which effectively reflects a 50% conversion premium on the Convertible Notes. As such, the Warrant Transactions may have a dilutive effect with respect to the Common Stock to the extent the Warrant Transactions are settled with shares of Series A Common Stock. Ascent Capital may elect to settle its delivery obligation under the Warrant Transactions in cash.

The Bond Hedge Transactions and Warrant Transactions are separate transactions entered into by Ascent Capital, are not part of the terms of the Convertible Notes and will not affect the Noteholders’ rights under the Convertible Notes. The Noteholders will not have any rights with respect to the Bond Hedge Transactions or the Warrant Transactions.

Ascent Capital purchased the bond hedge call option for \$20,318,000 and received \$14,211,000 in proceeds from the sale of the warrants, resulting in a net cost for the Bond Hedge Transactions and the Warrant Transactions of \$6,107,000. In accordance with FASB ASC 815-40, the fair value of the Bond Hedge and Warrant Transactions was recognized in Additional paid-in capital on the consolidated balance sheet.

Senior Notes

On July 17, 2013, Monitronics closed on a \$175,000,000 privately placed debt offering of 9.125% Senior Notes (the “New Senior Notes”). In December 2013, Monitronics completed an exchange of the New Senior Notes for identical securities in a registered offering under the Securities Act of 1933, as amended.

The New Senior Notes, together with the existing \$410,000,000 of 9.125% Senior Notes due 2020 (collectively, the “Senior Notes”), total \$585,000,000 in principal, mature on April 1, 2020 and bear interest at 9.125% per annum. Interest payments are due semi-annually on April 1 and October 1 of each year.

The Senior Notes are guaranteed by all of Monitronics’ existing domestic subsidiaries. Ascent Capital has not guaranteed any of Monitronics’ obligations under the Senior Notes.

Credit Facility

On March 25, 2013, Monitronics entered into an amendment (“Amendment No. 2”) with the lenders of its existing senior secured credit agreement dated March 23, 2012, and as amended and restated on November 7, 2012 (the “Existing Credit Agreement”). Pursuant to Amendment No. 2, Monitronics repriced the interest rates applicable to the Existing Credit Agreement’s facility (the “Repricing”), which is comprised of the term loans and revolving credit facility noted in the table above. Concurrently with the Repricing, Monitronics extended the maturity of the revolving credit facility by nine months to December 22, 2017.

On August 16, 2013, in connection with the Security Networks Acquisition, Monitronics entered into a third amendment (“Amendment No. 3”) to the Existing Credit Agreement to provide for, among other things, (i) an increase in the commitments under the revolving credit facility in a principal amount of \$75,000,000, resulting in an aggregate principal amount of \$225,000,000, (ii) new term loans in an aggregate principal amount of \$225,000,000 (the “Incremental Term Loans”) at a 0.5% discount and (iii) certain other amendments to the Existing Credit Agreement, each as set forth in Amendment No. 3 (the Existing Credit Agreement together with Amendment No. 2 and Amendment No. 3, the “Credit Facility”).

The Credit Facility term loans bear interest at LIBOR plus 3.25%, subject to a LIBOR floor of 1.00%, and mature on March 23, 2018. Principal payments of approximately \$2,292,000 and interest on the term loans are due quarterly. The Credit Facility revolver bears interest at LIBOR plus 3.75%, subject to a LIBOR floor of 1.00%, and matures on December 22, 2017. There is

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an annual commitment fee of 0.50% on unused portions of the Credit Facility revolver. As of September 30, 2014, \$147,900,000 is available for borrowing under the revolving credit facility.

At any time after the occurrence of an event of default under the Credit Facility, the lenders may, among other options, declare any amounts outstanding under the Credit Facility immediately due and payable and terminate any commitment to make further loans under the Credit Facility. In addition, failure to comply with restrictions contained in the Senior Notes could lead to an event of default under the Credit Facility.

On September 30, 2014, Monitronics borrowed \$27,500,000 on the Credit Facility revolver to funds its October 1, 2014 interest payment due under the Senior Notes of approximately \$26,691,000.

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

As of September 30, 2014, the Company has deferred financing costs, net of accumulated amortization, of \$23,864,000 related to the Convertible Notes, the Senior Notes and the Credit Facility. These costs are included in Other assets, net on the accompanying consolidated balance sheet and will be amortized over the remaining term of the respective debt instruments using the effective-interest method.

In order to reduce the financial risk related to changes in interest rates associated with the floating rate term loans under the Credit Facility, Monitronics has entered into interest rate swap agreements with terms similar to the Credit Facility term loans. On March 25, 2013, Monitronics negotiated amendments to the terms of its existing swap agreements to coincide with the Repricing. In the third quarter of 2013, Monitronics entered into additional interest rate swap agreements in conjunction with the Incremental Term Loans (all outstanding interest rate swap agreements are collectively referred to as the "Swaps").

The Swaps have a maturity date of March 23, 2018 to match the term of the Credit Facility term loans. The Swaps have been designated as effective hedges of the Company's variable rate debt and qualify for hedge accounting. See note 8, Derivatives, for further disclosures related to these derivative instruments. As a result of the Swaps, the interest rate on the borrowings under the Credit Facility term loans have been effectively converted from a variable rate to a weighted average fixed rate of 5.06%.

The terms of the Convertible Notes, the Senior Notes and the Credit Facility provide for certain financial and nonfinancial covenants. As of September 30, 2014, the Company was in compliance with all required covenants.

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

Remainder of 2014	\$2,292
2015	9,166
2016	9,166
2017	86,266
2018	870,800
2019	—
Thereafter	688,500
Total principal payments	\$1,666,190
Less:	
Unamortized discounts and premium, net	30,945
Total debt on condensed consolidated balance sheet	\$1,635,245

(8) Derivatives

The Company utilizes interest rate swap agreements to reduce the interest rate risk inherent in Monitronics' variable rate Credit Facility term loans. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatility. The Company incorporates credit valuation adjustments to appropriately reflect the respective counterparty's

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nonperformance risk in the fair value measurements. See note 9, Fair Value Measurements, for additional information about the credit valuation adjustments.

The Swaps' outstanding notional balance as of September 30, 2014 and terms are noted below:

Notional	Effective Date	Fixed Rate Paid	Variable Rate Received
\$536,250,000	March 28, 2013	1.884%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor (a)
142,100,000	March 28, 2013	1.384%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor (a)
111,086,683	September 30, 2013	1.959%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor
111,086,683	September 30, 2013	1.850%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor

On March 25, 2013, Monitronics negotiated amendments to the terms of these interest rate swap agreements to coincide with the Repricing (the "Amended Swaps"). The Amended Swaps are held with the same counterparties as the Existing Swap Agreements. Upon entering into the Amended Swaps, Monitronics simultaneously

- (a) dedesignated the Existing Swap Agreements and redesignated the Amended Swaps as cash flow hedges for the underlying change in the swap terms. The amounts previously recognized in Accumulated other comprehensive income (loss) relating to the dedesignation will be recognized in Interest expense over the remaining life of the Amended Swaps.

All of the Swaps are designated and qualify as cash flow hedging instruments, with the effective portion of the Swaps' change in fair value recorded in Accumulated other comprehensive income (loss). Any ineffective portions of the Swaps' change in fair value are recognized in current earnings in Interest expense. Changes in the fair value of the Swaps recognized in Accumulated other comprehensive income (loss) are reclassified to Interest expense when the hedged interest payments on the underlying debt are recognized. Amounts in Accumulated other comprehensive income (loss) expected to be recognized in Interest expense in the coming 12 months total approximately \$7,315,000.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Effective portion of gain (loss) recognized in Accumulated other comprehensive income (loss)	\$1,988	(5,734)	\$(7,617)	3,830
Effective portion of gain (loss) reclassified from Accumulated other comprehensive income (loss) into Net income (loss) (a)	\$(2,367)	(1,208)	\$(5,833)	(3,574)
Ineffective portion of amount of gain (loss) recognized into Net income (loss) on interest rate swaps (a)	\$59	(50)	\$56	30

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

(9) Fair Value Measurements

According to the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board Accounting Standards Codification, fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and requires that assets and liabilities carried at fair value are classified and disclosed in the following three categories:

Level 1 - Quoted prices for identical instruments in active markets.

• Level 2 - Quoted prices for similar instruments in active or inactive markets and valuations derived from models where all significant inputs are observable in active markets.

• Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are unobservable in any market.

The following summarizes the fair value level of assets and liabilities that are measured on a recurring basis at September 30, 2014 and December 31, 2013 (amounts in thousands):

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	Level 1	Level 2	Level 3	Total
September 30, 2014				
Money market funds (a)	\$ 13,685	—	—	13,685
Investments in marketable securities (b)	126,687	4,844	—	131,531
Derivative financial instruments - assets (c)	—	1,763	—	1,763
Derivative financial instruments - liabilities	—	(3,330)	) —	(3,330)
Total	\$ 140,372	\$ 3,277	\$—	\$ 143,649
December 31, 2013				
Money market funds (a)	\$ 27,710	—	—	27,710
Investments in marketable securities (b)	124,921	4,575	—	129,496
Derivative financial instruments - assets (c)	—	2,495	—	2,495
Derivative financial instruments - liabilities	—	(2,013)	) —	(2,013)
Total	\$ 152,631	\$ 5,057	\$—	\$ 157,688

(a) Included in cash and cash equivalents on the condensed consolidated balance sheets.

(b) Level 1 investments primarily consist of diversified corporate bond funds. The Level 2 security represents one investment in a corporate bond. All investments are classified as available-for-sale securities.

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

The Company has determined that the majority of the inputs used to value the Swaps fall within Level 2 of the fair value hierarchy. The credit valuation adjustments associated with the derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by their counterparties. As the counterparties have publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third-party credit data provider. As of September 30, 2014, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of the Swaps. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy.

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

	September 30, 2014	December 31, 2013
Long term debt, including current portion:		
Carrying value	\$ 1,635,245	\$ 1,581,264
Fair value (a)	1,662,224	1,667,671

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

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

(10) Restructuring Charges

In connection with the Security Networks Acquisition, management approved a restructuring plan to transition Security Networks' operations in West Palm Beach and Kissimmee, Florida to Dallas, Texas (the "2013 Restructuring Plan"). The 2013 Restructuring Plan provides certain employees with a severance package that entitles them to receive benefits upon completion of the transition in 2014. Severance costs related to the 2013 Restructuring Plan were

recognized ratably over the future service period. During the three and nine months ended September 30, 2014, the Company recorded \$51,000 and \$969,000, respectively, of restructuring charges related to employee termination benefits under the 2013 Restructuring Plan. During the three and nine months ended September 30, 2013, the Company recorded \$402,000 of restructuring charges related to employee termination benefits under the 2013 Restructuring Plan. The transition of Security Networks' operations to Dallas was completed in the second quarter of 2014.

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In 2008 through 2010, the Company completed a restructuring plan (the “2008 Restructuring Plan”) to align the Company’s organization with its strategic goals and how it operated, managed and sold its services. The 2008 Restructuring Plan included severance costs from labor cost mitigation measures undertaken across all of the businesses and facility costs in conjunction with the consolidation of certain facilities in the United Kingdom and the closing of the Company’s Mexico operations.

The following tables provide the activity and balances of the Company’s restructuring plans (amounts in thousands):

	December 31, 2013	Additions	Payments	Other	September 30, 2014
2013 Restructuring Plan					
Severance and retention	\$1,570	969	(2,271)	—	268
2008 Restructuring Plan					
Excess facility costs	\$141	—	—	—	141
	December 31, 2012	Additions	Payments	Other	September 30, 2013
2013 Restructuring Plan					
Severance and retention	\$—	402	—	492	(a) 894
2008 Restructuring Plan					
Excess facility costs	\$141	—	—	—	141

(a) Amount was recorded upon the acquisition of Security Networks.

(11) Stockholders’ Equity

Common Stock

The following table presents the activity in Ascent Capital’s Series A and Series B common stock for the nine months ended September 30, 2014:

	Series A Common Stock	Series B Common Stock
Balance at December 31, 2013	13,672,674	384,212
Issuance of restricted stock	24,863	—
Restricted stock cancelled for forfeitures and tax withholding	(8,099)	—
Stock option exercises	20,562	—
Repurchases and retirements of Series A shares	(313,609)	—
Balance at September 30, 2014	13,396,391	384,212

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Accumulated Other Comprehensive Income (Loss)

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

	Foreign currency translation adjustments	Unrealized holding gains and losses on marketable securities, net	Unrealized gains and losses on derivative instruments, net (a)	Accumulated other comprehensive income (loss)
As of December 31, 2013	\$ 167	1,498	74	1,739
Loss through Accumulated other comprehensive income (loss)	(107	) (1,500	) (7,617	) (9,224
Reclassifications of loss into Net loss	—	—	5,833	5,833
As of September 30, 2014	\$ 60	(2	) (1,710	) (1,652

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

(12) Basic and Diluted Earnings (Loss) Per Common Share—Series A and Series B

Basic earnings (loss) per common share (“EPS”) is computed by dividing net earnings (loss) by the weighted average number of Ascent Capital Series A and Series B common shares outstanding for the period. Diluted EPS is computed by dividing net earnings (loss) by the sum of the weighted average number of Ascent Capital Series A and Series B common shares outstanding and the effect of dilutive securities such as outstanding stock options and unvested restricted stock.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Weighted average Series A and Series B shares — basic and diluted	13,543,444	14,025,621	13,660,335	13,936,235

For the three and nine months ended September 30, 2014, diluted shares outstanding excluded the effect of 1,496,708 stock options and unvested restricted stock awards because their inclusion would have been anti-dilutive. For the three and nine months ended September 30, 2013, there were 1,521,358 anti-dilutive outstanding securities.

(13) Commitments, Contingencies and Other Liabilities

The Company is involved in litigation and similar claims incidental to the conduct of its business. Matters that are probable of unfavorable outcome to the Company and which can be reasonably estimated are accrued. Such accruals are based on information known about the matters, management’s estimate of the outcomes of such matters and experience in contesting, litigating and settling similar matters. In management’s opinion, none of the pending actions is likely to have a material adverse impact on the Company’s financial position or results of operations.

(14) Subsequent Events

On November 10, 2014, the Company announced the Board of Directors' authorization of an increase of \$25,000,000 to the Company's stock repurchase program. The Company may purchase shares of its Series A Common Stock or shares of Ascent Capital's Series B common stock, par value \$0.01 per share, under the increased program.

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

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

- general business conditions and industry trends;
- macroeconomic conditions and their effect on the general economy and on the U.S. housing market, in particular single family homes which represent Monitronics' largest demographic;
- uncertainties in the development of our business strategies, including market acceptance of new products and services; the competitive environment in which we operate, in particular increasing competition in the alarm monitoring industry from larger existing competitors and new market entrants, including telecommunications and cable companies;
- the development of new services or service innovations by competitors;
- Monitronics' ability to acquire and integrate additional accounts, including competition for dealers with other alarm monitoring companies which could cause an increase in expected subscriber acquisition costs;
- integration of acquired assets and businesses, including Security Networks;
- the regulatory environment in which we operate, including the multiplicity of jurisdictions and licensing requirements to which Monitronics is subject and the risk of new regulations, such as the increasing adoption of "false alarm" ordinances;
- technological changes which could result in the obsolescence of currently utilized technology and the need for significant upgrade expenditures, including the phase-out of 2G networks by cellular carriers;
- the trend away from the use of public switched telephone network lines and resultant increase in servicing costs associated with alternative methods of communication;
- the operating performance of Monitronics' network, including the potential for service disruptions at both the main monitoring facility and back-up monitoring facility due to acts of nature or technology deficiencies;
- the outcome of any pending, threatened, or future litigation, including potential liability for failure to respond adequately to alarm activations;
- the ability to continue to obtain insurance coverage sufficient to hedge our risk exposures, including as a result of acts of third parties and/or alleged regulatory violations;
- changes in the nature of strategic relationships with original equipment manufacturers, dealers and other Monitronics business partners;
- the reliability and creditworthiness of Monitronics' independent alarm systems dealers and subscribers;
- changes in Monitronics' expected rate of subscriber attrition;
- the availability and terms of capital, including the ability of Monitronics to obtain additional funds to grow its business;
- Monitronics' high degree of leverage and the restrictive covenants governing its indebtedness; and
- availability of qualified personnel.

For additional risk factors, please see Part I, Item 1A, Risk Factors, in the 2013 Form 10-K. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto included elsewhere herein and the 2013 Form 10-K.

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Overview

Ascent Capital Group, Inc. is a holding company and its assets primarily consist of its wholly-owned subsidiary, Monitronics International, Inc.

The Monitronics business provides security alarm monitoring and related services to residential and business subscribers throughout the United States and parts of Canada. On August 16, 2013, Monitronics acquired all of the equity interests of Security Networks LLC (“Security Networks”) and certain affiliated entities (the “Security Networks Acquisition”). Monitronics monitors signals arising from burglaries, fires, medical alerts and other events through security systems at subscribers’ premises, as well as provides customer service and technical support. Nearly all of its revenues are derived from monthly recurring revenues under security alarm monitoring contracts purchased from independent dealers in its exclusive nationwide network.

Ascent Capital’s attrition analysis and results of operations for the three and nine months ended September 30, 2014 include the operations of the Security Networks business.

Attrition

Account cancellation, otherwise referred to as subscriber attrition, has a direct impact on the number of subscribers that Monitronics services and on its financial results, including revenues, operating income and cash flow. A portion of the subscriber base can be expected to cancel its service every year. Subscribers may choose not to renew or terminate their contract for a variety of reasons, including relocation, cost and switching to a competitor’s service. The largest category of canceled accounts relate to subscriber relocation or the inability to contact the subscriber. Monitronics defines its attrition rate as the number of canceled accounts in a given period divided by the weighted average of number of subscribers for that period. Monitronics considers an account canceled if payment from the subscriber is deemed uncollectible or if the subscriber cancels for various reasons. If a subscriber relocates but continues its service, this is not a cancellation. If the subscriber relocates, discontinues its service and a new subscriber takes over the original subscriber’s service continuing the revenue stream, this is also not a cancellation. Monitronics adjusts the number of canceled accounts by excluding those that are contractually guaranteed by its dealers. The typical dealer contract provides that if a subscriber cancels in the first year of its contract, the dealer must either replace the canceled account with a new one or refund to Monitronics the cost paid to acquire the contract. To help ensure the dealer’s obligation to Monitronics, Monitronics typically maintains a dealer funded holdback reserve ranging from 5-10% of subscriber accounts in the guarantee period. In some cases, the amount of the holdback liability may be less than actual attrition experience.

The table below presents subscriber data for the twelve months ended September 30, 2014 and 2013:

	Twelve Months Ended September 30,			
	2014		2013	
Beginning balance of accounts	1,041,740		717,488	
Accounts acquired	155,568		437,860	
Accounts canceled	(132,153)	)	(106,859))
Canceled accounts guaranteed by dealer and acquisition adjustments (a)	(8,014)	) (b)	(6,749)	) (c)
Ending balance of accounts	1,057,141		1,041,740	
Monthly weighted average accounts	1,049,454		847,673	
Attrition rate	(12.6	)%	(12.6)%

- (a) Includes canceled accounts that are contractually guaranteed to be refunded from holdback.
Includes a net increase of 1,385 subscriber accounts related to the Security Networks Acquisition. These acquisition adjustments include a favorable adjustment of 1,503 accounts associated with multi-site subscribers that
- (b) were considered single accounts prior to the completion of the Security Networks integration in April 2014. The favorable adjustment was partially offset by 118 subscriber accounts that were proactively canceled in October 2013 because they were active with both Monitronics and Security Networks.
- (c) Includes 1,946 subscriber accounts that were proactively canceled during the third quarter of 2013 because they were active with both Monitronics and Security Networks.

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Monitronics analyzes its attrition by classifying accounts into annual pools based on the year of acquisition. Monitronics then tracks the number of accounts that cancel as a percentage of the initial number of accounts acquired for each pool for each year subsequent to its acquisition. Based on the average cancellation rate across the pools, in recent years Monitronics has averaged less than 1% attrition within the initial 12-month period after considering the accounts which were replaced or refunded by the dealers at no additional cost to Monitronics. Over the next few years of the subscriber account life, the number of subscribers that cancel as a percentage of the initial number of subscribers in that pool gradually increases and historically has peaked following the end of the initial contract term, which is typically three to five years. The peak following the end of the initial contract term is primarily a result of the buildup of subscribers that moved or no longer had need for the service but did not cancel their service until the end of their initial contract term. Subsequent to the peak following the end of the initial contract term, the number of subscribers that cancel as a percentage of the initial number of subscribers in that pool declines.

Accounts Acquired

During the three and nine months ended September 30, 2014, Monitronics acquired 43,602 and 118,227 subscriber accounts, respectively. Acquired contracts for the three months ended September 30, 2014 reflect bulk buy purchases of approximately 2,500 subscriber accounts. Acquired contracts for the nine months ended September 30, 2014 reflect bulk buy purchases of approximately 5,400 subscriber accounts. During the three and nine months ended September 30, 2013, Monitronics acquired 37,109 and 113,302 subscriber accounts, respectively, without giving effect to the Security Networks Acquisition. Acquired contracts for the nine months ended September 30, 2013 reflect bulk buys of approximately 18,200 accounts purchased in the second quarter of 2013. There were no bulk purchases during the three months ended September 30, 2013.

Acquired contracts for the twelve months ended September 30, 2013 includes 203,898 accounts acquired in the Security Networks Acquisition, which was completed on August 16, 2013, and approximately 111,200 accounts purchased in various bulk buys throughout the period.

Recurring monthly revenue ("RMR") acquired during the three and nine months ended September 30, 2014 was approximately \$2,007,000 and \$5,406,000, respectively. RMR acquired during the three and nine months ended September 30, 2013 was approximately \$1,701,000 and \$5,068,000, respectively, without giving effect to the Security Networks Acquisition.

Adjusted EBITDA

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

a substitute for, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. Adjusted EBITDA is a non-GAAP financial measure. As companies often define non-GAAP financial measures differently, Adjusted EBITDA as calculated by Ascent Capital should not be compared to any similarly titled measures reported by other companies.

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Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net revenue	\$136,027	115,844	\$403,587	\$318,275
Cost of services	24,835	20,155	69,907	50,951
Selling, general, and administrative	24,336	23,870	77,609	65,116
Amortization of subscriber accounts, dealer network and other intangible assets	64,341	55,746	189,382	146,059
Restructuring charges	51	402	969	402
Interest expense	(29,894)	(26,022)	(87,761)	(66,650)
Income tax benefit (expense) from continuing operations	(1,849)	3,571	(5,207)	1,883
Net loss from continuing operations	(10,992)	(7,655)	(30,881)	(5,129)
Net loss	(11,125)	(7,738)	(31,135)	(4,913)
Adjusted EBITDA (a)				
Monitronics business Adjusted EBITDA	\$91,138	77,649	\$270,674	\$217,472
Corporate Adjusted EBITDA	(2,558)	(1,990)	(5,604)	711
Total Adjusted EBITDA	\$88,580	75,659	\$265,070	\$218,183
Adjusted EBITDA as a percentage of Net revenue				
Monitronics business	67.0	% 67.0	% 67.1	% 68.3
Corporate	(1.9	)% (1.7	)% (1.4	)% 0.2

(a) See reconciliation to net loss from continuing operations below.

Net revenue. Net revenue increased \$20,183,000, or 17.4%, and \$85,312,000, or 26.8%, for the three and nine months ended September 30, 2014, respectively, as compared to the corresponding prior year periods. The increase in net revenue is attributable to the growth in the number of subscriber accounts and the increase in average RMR per subscriber. The growth in subscriber accounts reflects the acquisition of over 200,000 accounts from the Security Networks Acquisition in August 2013 and the acquisition of over 150,000 accounts through Monitronics' authorized dealer program subsequent to September 30, 2013. Average monthly revenue per subscriber increased from \$40.70 as of September 30, 2013 to \$41.36 as of September 30, 2014. Net revenue for the three and nine months ended September 30, 2013 also reflects the negative impact of an approximate \$2,500,000 fair value adjustment that reduced deferred revenue acquired in the Security Networks Acquisition.

Cost of services. Cost of services increased \$4,680,000, or 23.2%, and \$18,956,000, or 37.2%, for the three and nine months ended September 30, 2014, respectively, as compared to the corresponding prior year periods. The increase is primarily attributable to subscriber growth as explained above, as well as increases in cellular and service costs. Cellular costs have increased due to more accounts being monitored across the cellular network, which often include interactive and home automation services. This has also resulted in higher service costs as existing subscribers upgrade their systems. Cost of services as a percent of net revenue increased from 17.4% and 16.0% for the three and nine months ended September 30, 2013, respectively, to 18.3% and 17.3% for the three and nine months ended September 30, 2014, respectively.

Selling, general and administrative. Selling, general and administrative costs (“SG&A”) increased \$466,000, or 2.0%, and \$12,493,000, or 19.2%, for the three and nine months ended September 30, 2014, respectively, as compared to the corresponding prior year periods. The increases are a result of higher Monitronics SG&A costs, which are attributable to subscriber growth over the last twelve months. In addition, for the nine months ended September 30, 2014, the Company incurred redundant staffing and operating costs at Monitronics' Dallas, Texas headquarters in advance of transitioning Security Networks' operations from Florida to Texas. This transition was completed in April 2014. Also, professional fees incurred in relation to this transition effort totaled \$2,182,000 for the nine months ended September 30, 2014, as compared to \$535,000 for the corresponding prior year period. SG&A as a percent of net revenue decreased from 20.6% and 20.5% for the three and nine

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months ended September 30, 2013, respectively, to 17.9% and 19.2% for the three and nine months ended September 30, 2014, respectively.

Amortization of subscriber accounts, dealer network and other intangible assets. Amortization of subscriber accounts, dealer network and other intangible assets increased \$8,595,000 and \$43,323,000 for the three and nine months ended September 30, 2014, respectively, as compared to the corresponding prior year periods. The increase is attributable to amortization of subscriber accounts acquired subsequent to September 30, 2013 and amortization of approximately \$14,269,000 and \$44,952,000 for the three and nine months ended September 30, 2014, respectively, related to the definite lived intangible assets acquired in the Security Networks Acquisition.

Restructuring charges. In connection with the Security Networks Acquisition, management approved a restructuring plan to transition Security Networks' operations in West Palm Beach and Kissimmee, Florida to Dallas, Texas (the "2013 Restructuring Plan"). The 2013 Restructuring Plan provides certain employees with a severance package that entitles them to receive benefits upon completion of the transition in 2014. Severance costs related to the 2013 Restructuring Plan were recognized ratably over the future service period. During the three and nine months ended September 30, 2014, the Company recorded \$51,000 and \$969,000, respectively, of restructuring charges related to employee termination benefits under the 2013 Restructuring Plan. During the three and nine months ended September 30, 2013, the Company recorded \$402,000 of restructuring charges related to employee termination benefits under the 2013 Restructuring Plan. The transition of Security Networks' operations to Dallas was completed in the second quarter of 2014.

In 2008 through 2010, the Company completed a restructuring plan (the "2008 Restructuring Plan") to align the Company's organization with its strategic goals and how it operated, managed and sold its services. The 2008 Restructuring Plan included severance costs from labor cost mitigation measures undertaken across all of the businesses and facility costs in conjunction with the consolidation of certain facilities in the United Kingdom and the closing of the Company's Mexico operations.

The following tables provide the activity and balances of the Company's restructuring plans (amounts in thousands):

	December 31, 2013	Additions	Payments	Other	September 30, 2014
2013 Restructuring Plan					
Severance and retention	\$ 1,570	969	(2,271)	—	268
2008 Restructuring Plan					
Excess facility costs	\$ 141	—	—	—	141
	December 31, 2012	Additions	Payments	Other	September 30, 2013
2013 Restructuring Plan					
Severance and retention	\$—	402	—	492	(a) 894
2008 Restructuring Plan					
Excess facility costs	\$ 141	—	—	—	141

(a) Amount was recorded upon the acquisition of Security Networks.

Interest expense. Interest expense increased \$3,872,000 and \$21,111,000 for the three and nine months ended September 30, 2014, respectively, as compared to the corresponding prior year periods. The increases in interest expense is primarily attributable to increases in the Company's consolidated debt balance related to the borrowings

incurred to fund the Security Networks Acquisition. For the nine months ending September 30, 2014, the increase is partially offset by the favorable repricing of Monitronics credit facility interest rates effective March 25, 2013.

Income tax benefit (expense) from continuing operations. The Company had pre-tax loss from continuing operations of \$9,143,000 and \$25,674,000 for the three and nine months ended September 30, 2014, respectively, and income tax expense of \$1,849,000 and \$5,207,000 for the three and nine months ended September 30, 2014, respectively. The Company had pre-tax loss from continuing operations of \$11,226,000 and \$7,012,000 for the three and nine months ended September 30, 2013, respectively, and an income tax benefit of \$3,571,000 and \$1,883,000 for the three and nine months ended September 30, 2013. Income tax expense for the three and nine months ended September 30, 2014 is attributable to Monitronics' state tax expense and the deferred tax impact from amortization of deductible goodwill related to the Security Networks Acquisition. Income tax benefit for the three and nine months ended September 30, 2013 is primarily attributable to the reduction in valuation

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allowance as a result of acquisition accounting for the Security Networks Acquisition, partially offset by Monitronics state tax expense and the deferred tax impact from amortization of deductible goodwill related to the Security Networks Acquisition.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Total Adjusted EBITDA	\$88,580	75,659	\$265,070	218,183
Amortization of subscriber accounts, dealer network and other intangible assets	(64,341)	(55,746)	(189,382)	(146,059)
Depreciation	(2,525)	(2,305)	(7,851)	(6,360)
Stock-based compensation	(1,734)	(1,752)	(5,141)	(5,535)
Restructuring charges	(51)	(402)	(969)	(402)
Security Networks acquisition related costs	—	(1,032)	—	(2,470)
Security Networks integration related costs	—	(535)	(2,182)	(535)
Interest income	822	909	2,542	2,816
Interest expense	(29,894)	(26,022)	(87,761)	(66,650)
Income tax benefit (expense) from continuing operations	(1,849)	3,571	(5,207)	1,883
Net loss from continuing operations	\$(10,992)	(7,655)	\$(30,881)	(5,129)

Adjusted EBITDA increased \$12,921,000, or 17.1%, and \$46,887,000, or 21.5%, for the three and nine months ended September 30, 2014, respectively, as compared to the corresponding prior year periods. The increase in Adjusted EBITDA was primarily due to revenue growth. Monitronics Adjusted EBITDA was \$91,138,000 and \$270,674,000 for the three and nine months ended September 30, 2014, respectively, as compared to \$77,649,000 and \$217,472,000 for the three and nine months ended September 30, 2013, respectively.

Liquidity and Capital Resources

At September 30, 2014, we had \$50,594,000 of cash and cash equivalents, \$91,000 of current restricted cash, and \$131,531,000 of marketable securities on a consolidated basis. We may use a portion of these assets to decrease debt obligations, fund stock repurchases, or fund potential strategic acquisitions or investment opportunities.

Additionally, our other source of funds is our cash flows from operating activities which are primarily generated from the operations of Monitronics. During the nine months ended September 30, 2014 and 2013, our cash flow from operating activities was \$188,168,000 and \$169,651,000, respectively. The primary driver of our cash flow from operating activities is Adjusted EBITDA. Fluctuations in our Adjusted EBITDA and the components of that measure are discussed in “Results of Operations” above. In addition, our cash flow from operating activities may be significantly impacted by changes in working capital.

During the nine months ended September 30, 2014 and 2013, the Company used cash of \$202,429,000 and \$174,527,000, respectively, to fund subscriber account acquisitions, net of holdback and guarantee obligations. In addition, during the nine months ended September 30, 2014 and 2013, the Company used cash of \$5,035,000 and \$6,314,000, respectively, to fund its capital expenditures.

On September 30, 2014, Monitronics borrowed \$27,500,000 on the Credit Facility revolver to funds its October 1, 2014 interest payment due under the Senior Notes of approximately \$26,691,000.

On June 16, 2011, the Company announced that it received authorization to implement a stock repurchase program, pursuant to which it may purchase up to \$25,000,000 of its shares of Series A Common Stock from time to time. On November 14, 2013, the Company's Board of Directors authorized the repurchase of an additional \$25,000,000 of its shares of Series A Common Stock. During the nine months ended September 30, 2014, the Company purchased 313,609 shares of Series A Common Stock pursuant to these authorizations for approximately \$22,475,000. On November 10, 2014, the Company announced the Board of Directors' authorization of an increase of \$25,000,000 to the Company's stock repurchase program, which combined with the remaining availability under the Company's existing stock repurchase program will enable the Company to purchase up to an

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aggregate \$28,150,000 of Series A Common Stock. The Company may also purchase shares of its Series B Common Stock, par value \$0.01 per share, under the increased program.

In considering our liquidity requirements for 2014, we evaluated our known future commitments and obligations. We will require the availability of funds to finance the strategy of our primary operating subsidiary, Monitronics, which is to grow through the acquisition of subscriber accounts. Additionally, as a result of announcements by AT&T and certain other telecommunication providers that they intend to discontinue 2G services in the near future, we expect to incur expenditures over the next few years as we replace the 2G equipment used in many of our subscribers' security systems. Costs incurred and subscriber attrition resulting from the 2G phase-out will, to some extent, be dependent on the level of advance notice received from the telecommunication providers. We expect costs associated with the phase-out to be relatively small in 2014 and then increase in 2015 and 2016. We considered the expected cash flow from Monitronics, as this business is the driver of our operating cash flows. In addition, we considered the borrowing capacity of Monitronics' Credit Facility revolver, under which Monitronics could borrow an additional \$147,900,000 as of September 30, 2014. Based on this analysis, we expect that cash on hand, cash flow generated from operations and borrowings under the Monitronics' Credit Facility will provide sufficient liquidity, given our anticipated current and future requirements.

The existing long-term debt of the Company at September 30, 2014 includes the principal balance of \$1,666,190,000 under its Convertible Notes, Senior Notes, Credit Facility, and Credit Facility revolver. The Convertible Notes have an outstanding principal balance of \$103,500,000 as of September 30, 2014 and mature July 15, 2020. The Senior Notes have an outstanding principal balance of \$585,000,000 as of September 30, 2014 and mature on April 1, 2020. The Credit Facility term loans have an outstanding principal balance of \$900,590,000 as of September 30, 2014 and require principal payments of approximately \$2,292,000 per quarter with the remaining outstanding balance becoming due on March 23, 2018. The Credit Facility revolver has an outstanding balance of \$77,100,000 as of September 30, 2014 and becomes due on December 22, 2017.

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

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Item 3. Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

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

Tabular Presentation of Interest Rate Risk

The table below provides information about our outstanding debt obligations and derivative financial instruments that are sensitive to changes in interest rates. Interest rate swaps are presented at fair value and by maturity date. Debt amounts represent principal payments by maturity date.

Year of Maturity	Fixed Rate Derivative Instruments (a)	Variable Rate Debt	Fixed Rate Debt	Total
(Amounts in thousands)				
Remainder of 2014	\$—	\$2,292	\$—	\$2,292
2015	—	9,166	—	9,166
2016	—	9,166	—	9,166
2017	—	86,266	—	86,266
2018	1,567	870,800	—	872,367
2019	—	—	—	—
Thereafter	—	—	688,500	688,500
Total	\$1,567	\$977,690	\$688,500	\$1,667,757

The derivative financial instruments reflected in this column include four interest rate swaps, all with a maturity date of March 23, 2018. As a result of these interest rate swaps, the interest rate on the borrowings under the

- (a) Credit Facility term loans have been effectively converted from a variable rate to a weighted average fixed rate of 5.06%. See notes 7, 8 and 9 to our condensed consolidated financial statements included in this quarterly report for further information.

Item 4. Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer and chief financial officer (the “Executives”), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company’s disclosure controls and procedures were effective as of September 30, 2014 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

There has been no change in the Company’s internal controls over financial reporting that occurred during the three months ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, its internal

controls over financial reporting.

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ASCENT CAPITAL GROUP, INC. AND SUBSIDIARIES

PART II - OTHER INFORMATION

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

(c) Purchases of Equity Securities by the Issuer

The following table sets forth information concerning our company's purchase of its own equity securities (all of which were comprised of shares of our Series A common stock) during the three months ended September 30, 2014:

Period	Total number of shares purchased (surrendered) (1)	Average price paid per share	Total Number of Shares (or Units) Purchased as Part of Announced or Programs	Maximum Number (or Approximate Dollar Value) or Shares (or Units) that May Yet Be Purchased Under the Plans or Programs	(1)
7/1/2014 - 7/31/2014	5,597	(2) \$64.51	—		
8/1/2014 - 8/31/2014	38	(2) 64.96	—		
9/1/2014 - 9/30/2014	1,815	(2) 61.34	—		
Total	7,450	\$63.74	—		

On June 16, 2011, the Company announced that it received authorization to implement a stock repurchase program, pursuant to which it may purchase up to \$25,000,000 of its shares of Series A Common Stock from time to time. On November 14, 2013, the Company's Board of Directors authorized the repurchase of an additional \$25,000,000 of its Series A Common Stock. As of September 30, 2014, 817,996 shares of Series A Common Stock had been purchased, at an average price paid of \$57.27 per share, pursuant to these authorizations. On November 10, 2014, the Company announced the Board of Directors' authorization of an increase of \$25,000,000 to the Company's stock repurchase program, which combined with the remaining availability under the Company's existing stock repurchase program will enable the Company to purchase up to an aggregate \$28,150,000 of Series A Common Stock. The Company may also purchase shares of its Series B Common Stock, par value \$0.01 per share, under the increased program.

(2) Includes shares withheld in payment of withholding taxes by certain of our employees upon vesting of their restricted share awards.

Item 6. Exhibits

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

31.1	Rule 13a-14(a)/15d-14(a) Certification. *
31.2	Rule 13a-14(a)/15d-14(a) Certification. *
32	Section 1350 Certification. *
101.INS	XBRL Instance Document. **
101.SCH	XBRL Taxonomy Extension Schema Document. **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. **
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. **
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document. **

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document. **

* Filed herewith.

** Filed or furnished, as the case may be, herewith.

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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.

ASCENT CAPITAL GROUP, INC.

Date: November 10, 2014

By: /s/ William R. Fitzgerald
William R. Fitzgerald
Chairman of the Board, Director and Chief Executive Officer

Date: November 10, 2014

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

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