

Ascent Capital Group, Inc.
Form 10-Q
August 10, 2015
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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 June 30, 2015

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 (State or other jurisdiction of incorporation or organization) 5251 DTC Parkway, Suite 1000 Greenwood Village, Colorado (Address of principal executive offices) Registrant's telephone number, including area code: (303) 628-5600	26-2735737 (I.R.S. Employer Identification No.) 80111 (Zip Code)
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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 July 24, 2015 was:

Series A common stock 12,917,554 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)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$7,925	\$12,612
Restricted cash	53	18
Marketable securities, at fair value	114,508	122,593
Trade receivables, net of allowance for doubtful accounts of \$2,233 in 2015 and \$2,120 in 2014	13,864	13,796
Deferred income tax assets, net	6,346	6,346
Prepaid and other current assets	9,095	8,546
Assets held for sale	—	18,935
Total current assets	151,791	182,846
Property and equipment, net of accumulated depreciation of \$35,026 in 2015 and \$30,030 in 2014	39,626	36,010
Subscriber accounts, net of accumulated amortization of \$853,307 in 2015 and \$736,824 in 2014	1,409,143	1,373,630
Dealer network and other intangible assets, net of accumulated amortization of \$64,048 in 2015 and \$54,077 in 2014	36,185	44,855
Goodwill	563,468	527,502
Other assets, net	27,226	27,520
Total assets	\$2,227,439	\$2,192,363
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$7,912	\$6,781
Accrued payroll and related liabilities	4,291	4,077
Other accrued liabilities	30,072	30,727
Deferred revenue	15,580	14,945
Holdback liability	17,952	19,046
Current portion of long-term debt	5,500	9,166
Liabilities of discontinued operations	6,514	6,401
Total current liabilities	87,821	91,143
Non-current liabilities:		
Long-term debt	1,692,476	1,618,324
Long-term holdback liability	4,433	5,156
Derivative financial instruments	8,460	5,780
Deferred income tax liability, net	17,945	15,875
Other liabilities	16,791	16,397
Total liabilities	1,827,926	1,752,675
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 5,000,000 shares; no shares issued	—	—
Series A common stock, \$0.01 par value. Authorized 45,000,000 shares; issued and outstanding 12,918,054 and 13,162,095 shares at June 30, 2015 and December 31,	129	132

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2014, respectively

Series B common stock, \$.01 par value. Authorized 5,000,000 shares; issued and outstanding 384,086 shares both at June 30, 2015 and December 31, 2014	4	4
Series C common stock, \$.01 par value. Authorized 45,000,000 shares; no shares issued	—	—
Additional paid-in capital	1,434,708	1,441,291
Accumulated deficit	(1,023,175)	(994,931)
Accumulated other comprehensive loss, net	(12,153)	(6,808)
Total stockholders' equity	399,513	439,688
Total liabilities and stockholders' equity	\$2,227,439	\$2,192,363

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		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net revenue	\$ 141,543	134,696	\$ 279,959	267,560
Operating expenses:				
Cost of services	28,053	22,982	53,743	45,072
Selling, general, and administrative, including stock-based compensation	29,685	26,736	57,281	53,273
Amortization of subscriber accounts, dealer network and other intangible assets	63,526	63,261	126,667	125,041
Depreciation	2,585	2,568	4,983	5,326
Restructuring charges	—	371	—	918
Gain on disposal of operating assets	(104)	(69)	(1,154)	(69)
	123,745	115,849	241,520	229,561
Operating income	17,798	18,847	38,439	37,999
Other income (expense), net:				
Interest income	746	842	1,262	1,720
Interest expense	(30,893)	(29,094)	(60,674)	(57,867)
Refinancing expense	(4,468)	—	(4,468)	—
Other income, net	351	631	1,277	1,617
	(34,264)	(27,621)	(62,603)	(54,530)
Loss from continuing operations before income taxes	(16,466)	(8,774)	(24,164)	(16,531)
Income tax expense from continuing operations	(2,030)	(1,737)	(4,007)	(3,358)
Net loss from continuing operations	(18,496)	(10,511)	(28,171)	(19,889)
Discontinued operations:				
Earnings (loss) from discontinued operations	87	233	(73)	(121)
Income tax expense from discontinued operations	—	—	—	—
Earnings (loss) from discontinued operations, net of income tax	87	233	(73)	(121)
Net loss	(18,409)	(10,278)	(28,244)	(20,010)
Other comprehensive income (loss):				
Foreign currency translation adjustments	346	143	69	198
Unrealized holding gains (losses) on marketable securities, net	(884)	(199)	(1,953)	146
Unrealized gain (loss) on derivative contracts, net	1,002	(4,468)	(3,461)	(6,139)
Total other comprehensive income (loss), net of tax	464	(4,524)	(5,345)	(5,795)
Comprehensive loss	\$ (17,945)	(14,802)	\$ (33,589)	(25,805)
Basic and diluted income (loss) per share:				
Continuing operations	\$(1.41)	(0.77)	\$(2.14)	(1.45)
Discontinued operations	0.01	0.02	—	(0.01)
Net loss	\$(1.40)	(0.75)	\$(2.14)	(1.46)

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)

	Six Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(28,244	) (20,010
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss from discontinued operations, net of income tax	73	121
Amortization of subscriber accounts, dealer network and other intangible assets	126,667	125,041
Depreciation	4,983	5,326
Stock-based compensation	3,182	3,407
Deferred income tax expense	2,050	1,691
Gain on disposal of operating assets	(1,154	) (69
Long-term debt amortization	2,426	2,145
Refinancing expense	4,468	—
Other non-cash activity, net	8,805	5,658
Changes in assets and liabilities:		
Trade receivables	(4,440	) (3,967
Prepaid expenses and other assets	(2,195	) 1,566
Payables and other liabilities	(6,342	) (5,019
Operating activities from discontinued operations, net	40	(960
Net cash provided by operating activities	110,319	114,930
Cash flows from investing activities:		
Capital expenditures	(8,168	) (3,212
Cost of subscriber accounts acquired	(129,544	) (126,640
Cash paid for acquisition, net of cash acquired	(56,343) —
Purchases of marketable securities	(24,448	) (899
Proceeds from sale of marketable securities	31,004	—
Increase in restricted cash	(35	) (72
Proceeds from the disposal of operating assets	20,173	241
Other investing activities	—	(347
Net cash used in investing activities	(167,361	) (130,929
Cash flows from financing activities:		
Proceeds from long-term debt	674,050	75,200
Payments on long-term debt	(605,990	) (57,783
Payments of financing costs	(6,232) —
Stock option exercises	—	696
Purchases and retirement of common stock	(9,473	) (22,154
Net cash provided by (used in) financing activities	52,355	(4,041
Net decrease in cash and cash equivalents	(4,687	) (20,040
Cash and cash equivalents at beginning of period	12,612	44,701
Cash and cash equivalents at end of period	\$7,925	24,661
Supplemental cash flow information:		
State taxes paid, net	\$3,485	2,642
Interest paid	55,149	52,859

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 Loss	Total Stockholders' Equity
Balance at December 31, 2014	\$—	132	4	—	1,441,291	(994,931)	(6,808)	439,688
Net loss	—	—	—	—	—	(28,244)	—	(28,244)
Other comprehensive loss	—	—	—	—	—	—	(5,345)	(5,345)
Stock-based compensation	—	—	—	—	3,448	—	—	3,448
Value of shares withheld for minimum tax liability	—	—	—	—	(561)	—	—	(561)
Purchases and retirement of common stock	—	(3)	—	—	(9,470)	—	—	(9,473)
Balance at June 30, 2015	\$—	129	4	—	1,434,708	(1,023,175)	(12,153)	399,513

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

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 February 23, 2015, Monitronics acquired LiveWatch Security, LLC (“LiveWatch”), a Do-It-Yourself home security firm, offering professionally monitored security services through a direct-to-consumer sales channel (the “LiveWatch Acquisition”). On August 16, 2013, Monitronics acquired all of the equity interest of Security Networks LLC (“Security Networks”) and certain affiliated entities (the “Security Networks Acquisition”).

The unaudited interim financial information of the Company has been prepared in accordance with Article 10 of the Securities and Exchange Commission’s (the “SEC”) Regulation S-X. Accordingly, it does not include all of the information required by generally accepted accounting principles in the United States (“U.S. GAAP”) for complete financial statements. The Company’s unaudited condensed consolidated financial statements as of June 30, 2015, and for the three and six months ended June 30, 2015 and 2014, 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, 2014, filed with the SEC on February 27, 2015 (the “2014 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. In the third quarter of 2015, the FASB decided to defer the effective date of the standard to annual and interim periods beginning after December 15, 2017. Early adoption will be permitted 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) LiveWatch Acquisition

On February 23, 2015 (the "Closing Date"), Monitronics acquired LiveWatch for a purchase price of approximately \$61,550,000 (the "LiveWatch Purchase Price"). The LiveWatch Purchase Price includes approximately \$3,988,000 of cash transferred directly to LiveWatch to fund transaction bonuses payable to LiveWatch employees as of the Closing Date. This cash is not included in the fair value of consideration transferred for the LiveWatch Acquisition. The LiveWatch Purchase Price also includes post-closing adjustments of \$435,000 which were paid in the third quarter of 2015. The LiveWatch Acquisition was funded by borrowings from Monitronics' revolving credit facility, as well as cash contributions from Ascent Capital.

In connection with the LiveWatch Acquisition, Monitronics entered into employment agreements with certain key members of the LiveWatch management team which provide for retention bonuses of \$6,000,000 (the "LiveWatch Retention Bonuses") to be paid on the second anniversary of the Closing Date, and performance based bonus arrangements payable on the fourth anniversary of the Closing Date, assuming certain performance metrics are met by LiveWatch during the first four years following the Closing Date (the "LiveWatch Performance Bonuses"). The LiveWatch Performance Bonuses are estimated to yield an aggregate payout of approximately \$8,500,000. The LiveWatch Retention Bonuses and LiveWatch Performance

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Bonuses (together, the "LiveWatch Acquisition Contingent Bonuses") are contingent upon the continued employment of the key members of the LiveWatch management team. As such, the LiveWatch Acquisition Contingent Bonuses are expensed ratably over the service period based on the estimated value of the payouts. For the three and six months ended June 30, 2015, the Company recognized \$1,276,000 and \$1,795,000, respectively, related to the LiveWatch Acquisition Contingent Bonuses, which are included in Selling, general and administrative expense in the condensed consolidated statements of operations and comprehensive income (loss).

The LiveWatch Acquisition was accounted for as a business combination utilizing the acquisition method in accordance with FASB Accounting Standards Codification ("ASC") Topic 805, Business Combinations. Under the acquisition method of accounting, the fair value of the consideration transferred has been allocated to LiveWatch's tangible and identifiable intangible assets acquired and liabilities assumed based on their preliminary estimates of fair value as follows (amounts in thousands):

Cash	\$784	
Trade receivables	273	
Other current assets	617	
Property and equipment	362	
Subscriber accounts	24,900	
Other intangible asset	1,300	
Goodwill	35,966	
Current liabilities	(6,640)
Fair value of consideration transferred	\$57,562	

The Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 (File No. 001-34176), filed with the SEC on May 8, 2015 (the "March 2015 10-Q"), included an initial allocation of the purchase price. Subsequent to filing the Company's March 2015 10-Q, an adjustment was made to increase goodwill by \$457,000. The increase to goodwill is primarily related to the increase in the LiveWatch Purchase Price as discussed above. Other adjustments relate to working capital adjustments to LiveWatch's acquired other current assets and liabilities.

The preliminary estimates of the fair value of assets acquired and liabilities assumed are based on available information as of the date of this report and may be revised as additional information becomes available, which primarily includes the finalization of the valuation of assets and liabilities acquired.

Goodwill in the amount of \$35,966,000 was recognized in connection with the LiveWatch Acquisition and was calculated as the excess of the consideration transferred over the net assets recognized and represents the value to Monitronics for LiveWatch's recurring revenue and cash flow streams and its diversified business model and marketing channel. All of the goodwill acquired in the LiveWatch Acquisition is estimated to be deductible for tax purposes.

The subscriber accounts acquired in the LiveWatch Acquisition are amortized using the 14-year 235% declining balance method. The other intangible asset acquired, which represents LiveWatch's trademark asset, is amortized on a straight-line basis over its estimated useful life of 10 years.

As of June 30, 2015, the Company incurred \$946,000 of legal and professional services expense and other costs related to the LiveWatch Acquisition, which are included in Selling, general and administrative expense in the condensed consolidated statements of operations and comprehensive income (loss).

Ascent Capital's results of operations for the three and six months ended June 30, 2015 include the operations of LiveWatch from the Closing Date. The effect of the LiveWatch Acquisition was not material to the Company's consolidated results for the periods presented and, accordingly, proforma financial disclosures have not been

presented.

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(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):

	Six Months Ended June 30,	
	2015	2014
Beginning balance	\$ 122,593	129,496
Purchases	24,448	899
Sales at cost basis (a)	(30,580)	—
Realized and unrealized gains (losses), net	(1,953)	146
Ending balance	\$ 114,508	130,541

(a) For the six months ended June 30, 2015, total proceeds from the sale of marketable securities were \$31,004,000, resulting in a pre-tax gain of \$424,000.

The following table presents the changes in Accumulated other comprehensive 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Accumulated other comprehensive income (loss)				
Beginning balance	\$(2,857)	1,843	\$(1,788)	1,498
Unrealized gains (losses), net of income tax of \$0	(810)	(199)	(1,529)	146
Realized gain recognized into earnings, net of income tax of \$0 (a)	(74)	—	(424)	—
Ending balance	\$(3,741)	1,644	\$(3,741)	1,644

(a) The realized gain of the sale of marketable securities for the three and six months ended June 30, 2015 is included in Other income, net on the consolidated statements of operations and comprehensive income (loss).

(5) Assets Held for Sale

In the first and second quarters of 2015, the Company completed sales of assets held for sale with a total net book value of \$18,935,000, for gains of approximately \$1,151,000. As of June 30, 2015, the Company had no assets classified as held for sale.

(6) Other Accrued Liabilities

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

	June 30, 2015	December 31, 2014
Interest payable	\$ 15,493	\$ 15,594
Income taxes payable	2,091	3,577
Legal accrual	545	872
Other	11,943	10,684
Total Other accrued liabilities	\$ 30,072	\$ 30,727

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(7) Long-Term Debt

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

	June 30, 2015	December 31, 2014
Ascent Capital 4.00% Convertible Senior Notes due July 15, 2020	\$79,332	\$77,531
Monitronics 9.125% Senior Notes due April 1, 2020	585,233	585,251
Monitronics term loans, mature April 9, 2022, LIBOR plus 3.50%, subject to a LIBOR floor of 1.00% (4.50%)	545,946	—
Monitronics term loans, mature March 23, 2018, LIBOR plus 3.25%, subject to a LIBOR floor of 1.00% (4.25%)	400,265	894,208
Monitronics \$315 million revolving credit facility, matures December 22, 2017, LIBOR plus 3.75%, subject to a LIBOR floor of 1.00% (4.75%)	87,200	70,500
	1,697,976	1,627,490
Less current portion of long-term debt	(5,500)	(9,166)
Long-term debt	\$1,692,476	\$1,618,324

Convertible Notes

The convertible notes total \$103,500,000 in aggregate principal amount, mature on July 15, 2020 and bear interest at 4.00% per annum (the "Convertible Notes"). Interest on the Convertible Notes is payable semi-annually on January 15 and July 15 of each year. The Convertible Notes are convertible, under certain circumstances, into cash, shares of Ascent Capital's Series A Common Stock, par value \$0.01 per share (the "Series A Common Stock"), or any combination thereof at Ascent Capital's election.

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 Capital'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 Subtopic 470-20, Debt with Conversion and Other Options, 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 Subtopic 815-40, Contracts in an Entity's Own Equity.

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

	As of June 30, 2015	As of December 31, 2014
Principal	\$103,500	\$103,500
Unamortized discount	(24,168)	(25,969)
Carrying value	\$79,332	\$77,531

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 \$2,070,000 on the Convertible Notes for the three and six months ended June 30, 2015 and June 30, 2014, respectively. The Company amortized \$912,000 and \$1,801,000 of the Convertible Notes debt discount into interest expense for the three and six months ended June 30, 2015, respectively, compared to \$825,000 and \$1,630,000 for three and six months ended June 30, 2014, respectively.

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 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.

Senior Notes

The senior notes total \$585,000,000 in principal, mature on April 1, 2020 and bear interest at 9.125% per annum (the "Senior Notes"). 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 February 17, 2015, Monitronics entered into an amendment ("Amendment No. 4") with the lenders of its existing senior secured credit agreement dated March 23, 2012, and as amended and restated on August 16, 2013, March 25, 2013 and November 7, 2012 (the "Existing Credit Agreement"). Amendment No. 4 provided for, among other things, an increase in the commitments under the revolving credit facility in a principal amount of \$90,000,000.

On April 9, 2015, Monitronics entered into Amendment No. 5 ("Amendment No. 5") to its Existing Credit Agreement. Pursuant to Amendment No. 5, Monitronics completed the issuance of an incremental \$550,000,000 senior secured Term Loan

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B offering at a 0.5% discount with a maturity date of April 9, 2022 (the "2022 Term Loans"). Monitronics used the net proceeds to retire approximately \$492,000,000 of its existing term loans due March 2018 (the "2018 Term Loans") and repaid \$49,900,000 of its revolving credit facility. Amendment No. 5 (the Existing Credit Agreement together with Amendment No. 4 and Amendment No. 5, the "Credit Facility") also incorporates certain covenant changes, including the removal of the third quarter 2015 step downs of the senior secured and total leverage ratios, both as defined in the Credit Facility.

The 2018 Term Loans bear interest at LIBOR plus 3.25%, subject to a LIBOR floor of 1.00%, and mature on March 23, 2018. Interest payments on the 2018 Term Loans are due quarterly with the principal due at maturity. The 2022 Term Loans bear interest at LIBOR plus 3.50%, subject to a LIBOR floor of 1.00%. Principal payments of approximately \$1,375,000 and interest on the term loans are due quarterly on the 2022 Term Loans. The Credit Facility revolver bears interest at LIBOR plus 3.75%, subject to a LIBOR floor of 1.00%, and matures on December 22, 2017. There is an annual commitment fee of 0.50% on unused portions of the Credit Facility revolver. As of June 30, 2015, \$227,800,000 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.

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 June 30, 2015, the Company has deferred financing costs, net of accumulated amortization, of \$22,099,000 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.

As a result of Amendment No. 5 to Monitronics Credit Facility, the Company incurred Refinancing expense of \$4,468,000 for the three and six months ended June 30, 2015, which were primarily related to bank arrangement fees and other professional fees incurred to complete the amendment.

In order to reduce the financial risk related to changes in interest rates associated with the floating rate term loans under the Credit Facility term loans, Monitronics has entered into interest rate swap agreements with terms similar to the Credit Facility term loans (all outstanding interest rate swap agreements are collectively referred to as the "Swaps"). The Swaps have been designated as effective hedges of the Company's variable rate debt and qualify for hedge accounting. As a result of these interest rate swaps, Monitronics' current effective weighted average interest rate on the borrowings under the Credit Facility term loans is 5.15%. See note 8, Derivatives, for further disclosures related to these derivative instruments.

The terms of the Convertible Notes, the Senior Notes and the Credit Facility provide for certain financial and nonfinancial covenants. As of June 30, 2015, the Company was in compliance with all required covenants.

As of June 30, 2015, principal payments scheduled to be made on the Company's debt obligations are as follows (amounts in thousands):

Remainder of 2015	\$2,750
2016	5,500
2017	92,700

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2018	409,284
2019	5,500
2020	694,000
Thereafter	518,375
Total principal payments	\$1,728,109
Less:	
Unamortized discounts and premium, net	30,133
Total debt on condensed consolidated balance sheet	\$1,697,976

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

As of June 30, 2015, the Swaps' outstanding notional balances, effective dates, maturity dates and interest rates paid and received are noted below:

Notional	Effective Date	Maturity Date	Fixed Rate Paid	Variable Rate Received
\$532,125,000	March 28, 2013	March 23, 2018	1.884%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor (a)
141,012,500	March 28, 2013	March 23, 2018	1.384%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor (a)
110,238,693	September 30, 2013	March 23, 2018	1.959%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor
110,238,693	September 30, 2013	March 23, 2018	1.850%	3 mo. USD-LIBOR-BBA, subject to a 1.00% floor
191,475,002	March 23, 2018	April 9, 2022	2.924%	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, which were entered into in March 2012 (the "Existing Swap Agreements," as amended, the "Amended Swaps").

The Amended Swaps are held with the same counterparties as the Existing Swap Agreements. Upon entering into (a) the Amended Swaps, Monitronics simultaneously 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 are 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 loss. Any ineffective portions of the Swaps' change in fair value are recognized in current earnings in Interest expense. Changes in the fair value of the Swaps recognized in Accumulated other comprehensive loss are reclassified to Interest expense when the hedged interest payments on the underlying debt are recognized. Amounts in Accumulated other comprehensive loss expected to be recognized in Interest expense in the coming 12 months total approximately \$7,299,000.

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Effective portion of loss recognized in Accumulated other comprehensive loss	\$(820)	(6,234)	\$(7,088)	(9,605)
Effective portion of loss reclassified from Accumulated other comprehensive loss into Net loss	\$(1,822)	(1,766)	\$(3,627)	(3,466)
(a)				

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Ineffective portion of amount of gain (loss) recognized into Net loss on interest rate swaps (a)	\$83	(2)	\$(1)	(3)
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(a) Amounts are included in Interest expense in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

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(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 June 30, 2015 and December 31, 2014 (amounts in thousands):

	Level 1	Level 2	Level 3	Total
June 30, 2015				
Money market funds (a)	\$1,064	—	—	\$1,064
Investments in marketable securities (b)	114,508	—	—	114,508
Derivative financial instruments - assets (c)	—	370	—	370
Derivative financial instruments - liabilities	—	(8,460)	) —	(8,460)
Total	\$115,572	(8,090)	) —	\$107,482
December 31, 2014				
Money market funds (a)	\$8,492	—	—	\$8,492
Investments in marketable securities (b)	117,765	4,828	—	122,593
Derivative financial instruments - assets (c)	—	1,123	—	1,123
Derivative financial instruments - liabilities	—	(5,780)	) —	(5,780)
Total	\$126,257	171	—	\$126,428

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

Level 1 investments primarily consist of diversified corporate bond funds. The Level 2 security represents one (b) investment in a corporate bond which was sold in the second quarter of 2015. 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 significant inputs used to value the Swaps fall within Level 2 of the fair value hierarchy. 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):

	June 30, 2015	December 31, 2014
Long term debt, including current portion:		
Carrying value	\$1,697,976	\$1,627,490
Fair value (a)	1,689,689	1,590,809

(a) The fair value is based on market quotations 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.

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(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 provided certain Security Networks' employees with a severance package that entitled 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. No restructuring charges were recognized during the three and six months ended June 30, 2015. During the three and six months ended June 30, 2014, the Company recognized \$371,000 and \$918,000, respectively, 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.

The following tables provide the activity and balances of the 2013 Restructuring Plan (amounts in thousands):

	December 31, 2014	Additions	Payments	June 30, 2015
2013 Restructuring Plan Severance and retention	\$ 134	—	(134)	\$—
	December 31, 2013	Additions	Payments	June 30, 2014
2013 Restructuring Plan Severance and retention	\$ 1,570	918	(2,042)	\$ 446

(11) Stockholders' Equity

Common Stock

The following table presents the activity in Ascent Capital's Series A Common Stock and Series B common stock, par value \$0.01 per share (the "Series B Common Stock"), for the six months ended June 30, 2015:

	Series A Common Stock	Series B Common Stock
Balance at December 31, 2014	13,162,095	384,086
Issuance of restricted stock awards	6,285	—
Restricted stock forfeitures and tax withholding	(21,158)	—
Repurchases and retirements of Series A shares	(229,168)	—
Balance at June 30, 2015	12,918,054	384,086

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 (a)	Unrealized gains and losses on derivative instruments, net (b)	Accumulated other comprehensive income (loss)
As of December 31, 2014	\$ (215)	(1,788)	(4,805)	\$ (6,808)

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Loss through Accumulated other comprehensive loss ⁶⁹	(1,529)	(7,088)	(8,548)
Reclassifications of loss (gain) into Net loss	—		(424)	3,627	3,203
As of June 30, 2015	\$(146	)	(3,741	)	(8,266)
					\$(12,153)

- (a) Amounts reclassified into net loss are included in Other income, net on the condensed consolidated statement of operations. See note 4, Investments in Marketable Securities, for further information.
- (b) Amounts reclassified into net loss are included in Interest expense on the condensed consolidated statement of operations. See note 8, Derivatives, for further information.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Weighted average Series A and Series B shares — basic and diluted	13,110,540	13,632,129	13,188,309	13,719,750

For all periods presented, diluted EPS is computed the same as basic EPS because the Company recorded a loss from continuing operations, which would make potentially dilutive securities anti-dilutive. For both the three and six months ended June 30, 2015, diluted shares outstanding excluded the effect of 714,991 potentially dilutive stock options and unvested restricted stock awards because their inclusion would have been anti-dilutive. For both the three and six months ended June 30, 2014, diluted shares outstanding excluded the effect of 1,506,933 potentially dilutive stock options and unvested restricted stock awards because their inclusion would have been anti-dilutive.

(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.

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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;
- 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 2014 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 2014 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 February 23, 2015 (the "Closing Date"), Monitronics acquired LiveWatch Security, LLC ("LiveWatch"), a Do-It-Yourself home security firm, offering professionally monitored security services through a direct-to-consumer sales channel (the "LiveWatch Acquisition"). On August 16, 2013, Monitronics acquired all of the equity interest 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 six months ended June 30, 2015 include the operations of the LiveWatch business from the Closing Date.

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.

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The table below presents subscriber data for the twelve months ended June 30, 2015 and 2014:

	Twelve Months Ended		June 30,	
	2015		2014	
Beginning balance of accounts	1,055,701		838,723	
Accounts acquired	188,416		352,973	
Accounts canceled	(142,951	)	(125,099)
Canceled accounts guaranteed by dealer and acquisition adjustments (a)	(9,083	)	(10,896	) (b)
Ending balance of accounts	1,092,083		1,055,701	
Monthly weighted average accounts	1,069,860		1,014,809	
Attrition rate - Unit	(13.4	)%	(12.3)%
Attrition rate - RMR (c)	(13.2	)%	(12.0)%

(a) Includes canceled accounts that are contractually guaranteed to be refunded from holdback.

Includes a net reduction of 963 subscriber accounts related to the Security Networks Acquisition. These acquisition adjustments include 2,064 subscriber accounts that were proactively canceled following the acquisition of Security Networks in August 2013 because they were active with both Monitronics and Security Networks. The impact of (b) these cancellations was partially offset by a favorable adjustment of 1,101 accounts associated with multi-site subscribers that were considered single accounts prior to the completion of the Security Networks integration in April 2014.

The recurring monthly revenue ("RMR") of canceled accounts follows the same definition as subscriber unit (c) attrition as noted above. RMR attrition is defined as the RMR of canceled accounts in a given period, adjusted for the impact of price increases or decreases in that period, divided by the weighted average of RMR for that period.

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 months ended June 30, 2015 and 2014, Monitronics acquired 40,742 and 42,851 subscriber accounts, respectively. During the six months ended June 30, 2015 and 2014, Monitronics acquired 106,816 and 74,625 subscriber accounts, respectively. Accounts acquired for the six months ended June 30, 2015 includes 31,919 accounts from the LiveWatch Acquisition in February 2015. Accounts acquired for the three and six months ended June 30, 2014 reflect a bulk buy of approximately 2,900 accounts.

RMR acquired during the three months ended June 30, 2015 and 2014 was \$1,884,000 and \$1,948,000, respectively. RMR acquired during the six months ended June 30, 2015 and 2014 was approximately \$4,373,000 and \$3,399,000, respectively. RMR acquired for the six months ended June 30, 2015 includes approximately \$909,000 of RMR from the LiveWatch Acquisition in February 2015.

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

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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.

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		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net revenue	\$141,543	134,696	\$279,959	267,560
Cost of services	28,053	22,982	53,743	45,072
Selling, general, and administrative	29,685	26,736	57,281	53,273
Amortization of subscriber accounts, dealer network and other intangible assets	63,526	63,261	126,667	125,041
Restructuring charges	—	371	—	918
Interest expense	(30,893)	(29,094)	(60,674)	(57,867)
Income tax expense from continuing operations	(2,030)	(1,737)	(4,007)	(3,358)
Net loss from continuing operations	(18,496)	(10,511)	(28,171)	(19,889)
Net loss	(18,409)	(10,278)	(28,244)	(20,010)
Adjusted EBITDA (a)				
Monitronics business Adjusted EBITDA	\$89,974	90,702	\$181,641	179,977
Corporate Adjusted EBITDA	(2,431)	(1,715)	(3,379)	(3,046)
Total Adjusted EBITDA	\$87,543	88,987	\$178,262	176,931
Adjusted EBITDA as a percentage of Net revenue				
Monitronics business	63.6 %	67.3 %	64.9 %	67.3 %
Corporate	(1.7)%	(1.3)%	(1.2)%	(1.1)%

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

Net revenue. Net revenue increased \$6,847,000, or 5.1%, and \$12,399,000, or 4.6%, for the three and six months ended June 30, 2015, 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 148,000 accounts through Monitronics' authorized dealer program subsequent to June 30, 2014, as well as 31,919 accounts acquired in the LiveWatch Acquisition in February 2015. Average monthly revenue per subscriber increased from \$41.26 as of June 30, 2014 to \$41.62 as of

June 30, 2015. Excluding accounts acquired through the LiveWatch Acquisition, which had an average monthly revenue per subscriber of \$28.46, Monitronics' average monthly revenue per subscriber was \$42.02 as of June 30, 2015.

Cost of services. Cost of services increased \$5,071,000, or 22.1%, and \$8,671,000, or 19.2%, for the three and six months ended June 30, 2015, respectively, as compared to the corresponding prior year periods. The increase is attributable to the inclusion of LiveWatch, which expenses equipment costs associated with new subscribers. The increase is also attributable to the growth in the number of accounts being monitored across the cellular network, including home automation accounts, and service costs to upgrade existing subscribers' equipment. Service costs for the three and six months ended June 30, 2015 also

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include \$450,000 and \$973,000, respectively, incurred in relation to the Radio Conversion Program, which was implemented in 2014 to upgrade subscribers' alarm monitoring systems that communicate across certain 2G networks that are expected to be discontinued in the near future. Radio conversion costs of \$441,000 were incurred for both the three and six months ended June 30, 2014. Cost of services as a percent of net revenue increased from 17.1% and 16.8% for the three and six months ended June 30, 2014 to 19.8% and 19.2% for the three and six months ended June 30, 2015, respectively.

Selling, general and administrative. Selling, general and administrative costs (“SG&A”) increased \$2,949,000, or 11.0%, and \$4,008,000, or 7.5%, for the three and six months ended June 30, 2015, respectively, as compared to the corresponding prior year periods. The increase is attributable to SG&A incurred at LiveWatch, including marketing and sales costs related to the creation of new subscribers, and one-time costs incurred by Monitronics of \$946,000 for the six months ended June 30, 2015, which were related to professional services rendered in connection with the LiveWatch Acquisition. For the three and six months ended June 30, 2015, LiveWatch SG&A also includes \$1,276,000 and \$1,795,000, respectively, in LiveWatch Acquisition Contingent Bonuses payable to LiveWatch's key members of management in accordance with the employment agreements entered into in connection with the LiveWatch Acquisition. These increases were partially offset by decreases in Monitronics' staffing and operating costs incurred at its Dallas, Texas headquarters as a result of the Security Networks' integration being completed in April 2014. SG&A for the three and six months ended June 30, 2014 includes approximately \$1,123,000 and \$2,182,000, respectively, of costs incurred in connection to the Security Networks' integration. SG&A as a percent of net revenue increased from 19.8% and 19.9% for the three and six months ended June 30, 2014 to 21.0% and 20.5% for the three and six months ended June 30, 2015, respectively.

Amortization of subscriber accounts, dealer network and other intangible assets. Amortization of subscriber accounts, dealer network and other intangible assets increased \$265,000 and \$1,626,000 for the three and six months ended June 30, 2015, respectively, as compared to the corresponding prior year periods. The increase is attributable to amortization of subscriber accounts acquired subsequent to June 30, 2014.

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 provided certain Security Networks' employees with a severance package that entitled 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. No restructuring charges were recognized during the three and six months ended June 30, 2015. During the three and six months ended June 30, 2014, the Company recognized \$371,000 and \$918,000, respectively, 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.

The following tables provide the activity and balances of the 2013 Restructuring Plan (amounts in thousands):

	December 31, 2014	Additions	Payments	June 30, 2015
2013 Restructuring Plan Severance and retention	\$ 134	—	(134)	\$—
	December 31, 2013	Additions	Payments	June 30, 2014
2013 Restructuring Plan Severance and retention	\$ 1,570	918	(2,042)	\$ 446

Interest expense. Interest expense increased \$1,799,000 and \$2,807,000 for the three and six months ended June 30, 2015, respectively, as compared to the corresponding prior year periods. The increase in interest expense is primarily attributable to increases in the Company's consolidated debt balance related to the revolver borrowings incurred to fund the LiveWatch Acquisition and subsequent amendment to its Credit Facility term loans in April 2015.

Income tax expense from continuing operations. The Company had pre-tax loss from continuing operations of \$16,466,000 and \$24,164,000 for the three and six months ended June 30, 2015, respectively, and income tax expense of \$2,030,000 and \$4,007,000 for the three and six months ended June 30, 2015, respectively. The Company had pre-tax loss from continuing operations of \$8,774,000 and \$16,531,000 for the three and six months ended June 30, 2014, respectively, and income tax expense of \$1,737,000 and \$3,358,000 for the three and six months ended June 30, 2014, respectively. Income tax expense for the three and six months ended June 30, 2015 and 2014 is attributable to Monitronics' state tax expense and the deferred tax impact from amortization of deductible goodwill related to Monitronics' recent acquisitions.

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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		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Total Adjusted EBITDA	\$87,543	88,987	\$178,262	176,931
Amortization of subscriber accounts, dealer network and other intangible assets	(63,526)	(63,261)	(126,667)	(125,041)
Depreciation	(2,585)	(2,568)	(4,983)	(5,326)
Stock-based compensation	(1,557)	(1,745)	(3,182)	(3,407)
Restructuring charges	—	(371)	—	(918)
Radio conversion costs	(450)	(441)	(973)	(441)
LiveWatch acquisition related costs	—	—	(946)	—
LiveWatch acquisition contingent bonus charges	(1,276)	—	(1,795)	—
Security Networks integration related costs	—	(1,123)	—	(2,182)
Interest income	746	842	1,262	1,720
Interest expense	(30,893)	(29,094)	(60,674)	(57,867)
Refinancing expense	(4,468)	—	(4,468)	—
Income tax expense from continuing operations	(2,030)	(1,737)	(4,007)	(3,358)
Net loss from continuing operations	\$(18,496)	(10,511)	\$(28,171)	(19,889)

Adjusted EBITDA decreased \$1,444,000, or 1.6%, and increased \$1,331,000, or 0.8%, for the three and six months ended June 30, 2015, respectively, as compared to the corresponding prior year periods. Adjusted EBITDA is negatively impacted for the three and six months ended June 30, 2015 due to LiveWatch's direct-to-consumer business, which requires it to recognize certain revenue and expenses associated with the acquisition of subscriber accounts. This is in contrast to Monitronics' dealer business, which capitalizes payments to dealers to acquire accounts and amortizes those payments to amortization expense over the life of the accounts. Monitronics' consolidated Adjusted EBITDA was \$89,974,000 and \$181,641,000 for the three and six months ended June 30, 2015, respectively, as compared to \$90,702,000 and \$179,977,000 for the three and six months ended June 30, 2014, respectively.

Liquidity and Capital Resources

At June 30, 2015, we had \$7,925,000 of cash and cash equivalents, \$53,000 of current restricted cash, and \$114,508,000 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 six months ended June 30, 2015 and 2014, our cash flow from operating activities was \$110,319,000 and \$114,930,000, respectively. The primary driver of our cash flow from operating activities is Adjusted EBITDA. Fluctuations in our Adjusted EBITDA and the components of that measure are discussed in "Results of Operations" above. In addition, our cash flow from operating activities may be significantly impacted by changes in working capital.

During the six months ended June 30, 2015 and 2014, the Company used cash of \$129,544,000 and \$126,640,000, respectively, to fund subscriber account acquisitions, net of holdback and guarantee obligations. In addition, during the six months ended June 30, 2015 and 2014, the Company used cash of \$8,168,000 and \$3,212,000, respectively, to fund its capital expenditures.

In February 2015, Monitronics paid cash of \$56,343,000 for the acquisition of LiveWatch, net of the transfer of \$3,988,000 to LiveWatch upon the Closing Date to fund LiveWatch employees' transaction bonuses and LiveWatch cash on hand of \$784,000. The LiveWatch Acquisition was funded by borrowings from Monitronics expanded Credit Facility revolver as well as cash contributions from Ascent Capital. An additional \$435,000 in cash was paid in the third quarter of 2015 for post-closing purchase price adjustments for the LiveWatch Acquisition.

On June 16, 2011, the Company announced that it received authorization to implement a share 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

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Stock. On November 10, 2014, the Company announced the Board of Directors' authorization of a further increase of \$25,000,000 to the Company's share repurchase program (the "Share Repurchase Authorizations").

During the six months ended June 30, 2015, the Company repurchased 229,168 shares of Series A Common Stock pursuant to the Share Repurchase Authorizations for approximately \$9,473,000. These repurchased shares were all canceled and returned to the status of authorized and unissued. As of June 30, 2015, the remaining availability under the Company's Share Repurchase Authorizations will enable the Company purchase up to an aggregate of approximately \$5,422,000 of Series A Common Stock. The Company may also purchase shares of its Series B Common Stock under the remaining availability of the Share Repurchase Authorizations.

On April 9, 2015, Monitronics entered into Amendment No. 5 ("Amendment No. 5") to its existing senior secured credit agreement dated March 23, 2012, and as amended and restated on February 17, 2015, August 16, 2013, March 25, 2013 and November 7, 2012 (the "Existing Credit Agreement"). Pursuant to Amendment No. 5, Monitronics completed the issuance of an incremental \$550,000,000 senior secured Term Loan B offering at a 0.5% discount with a maturity date of April 9, 2022. Monitronics used the net proceeds to retire approximately \$492,000,000 of its existing Term Loans, due March 2018, and repaid \$49,900,000 of its revolving credit facility. Amendment No. 5 (the Existing Credit Agreement together with Amendment No. 5, the "Credit Facility") also incorporates certain covenant changes, including the removal of the third quarter 2015 step downs of the senior secured and total leverage ratios, both as defined in the Credit Facility.

The existing long-term debt of the Company at June 30, 2015 includes the principal balance of \$1,728,109,000 under its Convertible Notes, Senior Notes, Credit Facility term loans, and Credit Facility revolver. The Convertible Notes have an outstanding principal balance of \$103,500,000 as of June 30, 2015 and mature July 15, 2020. The Senior Notes have an outstanding principal balance of \$585,000,000 as of June 30, 2015 and mature on April 1, 2020. The Credit Facility term loans have an outstanding principal balance of \$952,409,000 as of June 30, 2015 and require principal payments of approximately \$1,375,000 per quarter with \$403,784,000 becoming due on March 23, 2018 and the remaining amount becoming due on April 9, 2022. The Credit Facility revolver has an outstanding balance of \$87,200,000 as of June 30, 2015 and becomes due on December 22, 2017.

In considering our liquidity requirements for the remainder of 2015 and 2016, 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. In 2014, Monitronics implemented a Radio Conversion Program in response to one of the nation's largest carriers announcing that it does not intend to support its 2G cellular network services beyond 2016. In connection with the Radio Conversion Program, Monitronics could incur incremental costs of \$10,000,000 to \$12,000,000 for the remainder of 2015 and \$20,000,000 to \$24,000,000 in 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 \$227,800,000 as of June 30, 2015. 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.

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 their fair value liability (asset) and by maturity date as of June 30, 2015. Debt amounts represent principal payments by maturity date as of June 30, 2015.

Year of Maturity	Fixed Rate Derivative Instruments, net (a)	Variable Rate Debt	Fixed Rate Debt	Total
	(Amounts in thousands)			
Remainder of 2015	\$—	\$2,750	\$—	\$2,750
2016	—	5,500	—	5,500
2017	—	92,700	—	92,700
2018	8,188	409,284	—	417,472
2019	—	5,500	—	5,500
2020	—	5,500	688,500	694,000
Thereafter	(98	) 518,375	—	518,277
Total	\$8,090	\$1,039,609	\$688,500	\$1,736,199

The derivative financial instruments reflected in this column include four interest rate swaps with a maturity date of March 23, 2018 and one interest rate swap with a maturity date of April 9, 2022. As a result of these interest (a) rate swaps, Monitronics' current effective weighted average interest rate on the borrowings under the Credit Facility term loans is 5.15%. 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 June 30, 2015 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There has been no change in the Company's internal controls over financial reporting that occurred during the three months ended June 30, 2015 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 shares withheld in payment of withholding taxes during the three months ended June 30, 2015. The Company did not purchase any of its own equity securities during the three months ended June 30, 2015.

Period	Total number of shares purchased (surrendered) (1)	Average price paid per share	Total Number of Shares (or Units) Purchased as Part of Announced Plans or Programs	Maximum Number (or Units) that May Yet Be Purchased Under the Plans or Programs	Approximate Dollar Value or Shares (or Units)
4/1/2015 - 4/30/2015	1,625 (2)	\$40.31	—	—	—
5/1/2015 - 5/31/2015	—	—	—	—	—
6/1/2015 - 6/30/2015	4,585 (2)	42.56	—	—	—
Total	6,210	\$41.97	—	—	—

On June 16, 2011, the Company announced that it received authorization to implement a share repurchase program, pursuant to which it may purchase up to \$25,000,000 of its shares of Series A Common Stock, par value \$0.01, 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. On November 10, 2014, the Company announced the Board of Directors' authorization of a further increase of \$25,000,000 to the Company's share repurchase program. (1) As of June 30, 2015, 1,290,864 shares of Series A Common Stock had been purchased, at an average price paid of \$53.90 per share, pursuant to these authorizations. As of June 30, 2015, the remaining availability under the Company's existing share repurchase program will enable the Company to purchase up to an aggregate of approximately \$5,422,000 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 remaining availability of the program.

(2) Represents shares withheld in payment of withholding taxes upon vesting of employees' restricted share awards.

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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):

4.1	Form of Amendment No. 5 to the Credit Agreement, dated April 9, 2015, by and among Monitronics International, Inc., Bank of America, N.A., individually and as administrative agent, and the certain lenders party thereto (incorporated by reference to Exhibit 4.1 to the Ascent Capital Group, Inc.'s (the "Company") Current Report on Form 8-K (File No. 001-34176) filed with the Securities and Exchange Commission on April 15, 2015).
10.1	Employment Agreement, effective as of April 20, 2015, between the Company and Richard G. Walker.*
31.1	Rule 13a-14(a)/15d-14(a) Certification. *
31.2	Rule 13a-14(a)/15d-14(a) Certification. *
32	Section 1350 Certification. **
101.INS	XBRL Instance Document. *
101.SCH	XBRL Taxonomy Extension Schema Document. *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. *
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document. *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. *

* Filed herewith.

** Furnished herewith.

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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: August 10, 2015

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

Date: August 10, 2015

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

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* Filed herewith.

** Furnished herewith.