

ACME COMMUNICATIONS, Inc.

ANNUAL REPORT

2012

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Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations

Forward Looking Statements

This Annual Report includes forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "could," "expect," "believe," "should" or "might" or the negative of such terms or other comparable terminology. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our and the television broadcast industry's actual results, levels of activity, performance, achievements and prospects to be materially different from those expressed or implied by such forward-looking statements. Actual results in the future could differ materially and adversely from those described in the forward-looking statements as a result of various important factors, including (but not limited to) an inability to sell our remaining assets, the impact of changes in national and regional economies, including advertising demand, pricing fluctuations in local and national advertising, and other risk factors.

These forward-looking statements speak only as of the date of this Annual Report. We undertake no duty to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Annual Report. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report might not occur.

Presentation of Financial Information in this MD&A

The financial information and discussion contained in this MD&A for the years ended December 31, 2012 and 2011 is unaudited. In the opinion of management, such financial information, however, includes all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of the financial position and the results of operations, and cash flows for the periods presented. The information contained in the MD&A should be read in conjunction with our Consolidated Financial Statements, and notes thereto, as of and for the years ended December 31, 2012 and 2011, which can be found on the Company's Web site at www.acmecomcommunications.com.

Overview

This MD&A is provided as a supplement to our Consolidated Financial Statements and notes thereto, as discussed above, in order to enhance your understanding of our results of operations and financial condition. Our MD&A is organized as follows:

- *Introduction.* This section provides a general description of our Company and discussion about our operations.
- *Sale of Stations and Other Events.* This section provides a general description of our Company's recent developments including the sales of the Company's WBXX, Knoxville, TN (WBXX), WBDT, Dayton, OH (WBDT) and WCWF (formerly WIWB, Green Bay-Appleton, WI) television stations completed in 2011 and the sale of station WBUW, Madison, WI (WBUW), completed in February 2012 and our remaining television stations KWBQ, its satellite KRWB and KASY (Albuquerque, NM) (KWBQ/KASY) in December 2012.
- *Critical Accounting Policies and Estimates.* This section discusses those accounting policies that are considered important to the evaluation and reporting of our financial condition and results of operations, and whose application requires us to exercise subjective or complex judgments in making estimates and assumptions. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 2 to our Consolidated Financial Statements, which are, as mentioned above, posted separately on our Company's website at www.acmecomcommunications.com.
- *Results of Operations.* This section provides our analysis and outlook for the significant line items on our Consolidated Statements of Operations, as well as other information that we deem meaningful to understand our results of operations all presented on a discontinuing operations basis.
- *Liquidity and Capital Resources.* This section provides an analysis of our liquidity and cash flows and discussions of our contractual obligations and commitments, as well as our outlook on our available liquidity as of December 31, 2012.

□ *Recent Accounting Pronouncements.* This section provides a summary of the most recent authoritative accounting standards and guidance that have either been recently adopted by our Company or may be adopted in the future.

As of December 31, 2012, our Company, ACME Communications, Inc. and its wholly-owned subsidiaries (together, unless the context otherwise requires, the "Company" or "we"), owned and produced a three-hour weekday news and lifestyle morning program, *The Daily Buzz*, which airs on television stations serving 180 television markets representing approximately 73% of the country. In May 2011, we sold our stations WBXX, WBDT and WCWF and in February 2012, we sold our station WBUW and in December 2012 we sold our remaining stations, KWBQ, its satellite station KRWB and KASY, all serving the Albuquerque-Santa Fe, New Mexico market – also see “*Sale of Stations and Other Events*” below. All of our previously sold stations, our recently sold stations in New Mexico and our production company have been treated as discontinued operations in our accompanying Consolidated Financial Statements and in this MD&A.

Since we reached a high of eleven television stations (not counting our satellite in Roswell) in 2002, we have been seeking to monetize shareholder value by the selective sale of our stations. As of December 31, 2012, we have sold all of our television stations. In March 2013, we sold *The Daily Buzz* –see Note 12, “*Subsequent Events*” in “Notes to Consolidated Financial Statements”.

We derive revenues primarily from the sale of advertising time to local, regional and national advertisers and, to a lesser extent, from program licensing fees from other stations and distributors related to *The Daily Buzz*.

Our costs of service primarily include programming costs at our stations and the costs to produce *The Daily Buzz*. Other costs of service presented in the accompanying Consolidated Financial Statements and in this MD&A include advertising expenses targeted at viewers, which is net of any reimbursement received or due to us for such advertising and promotion from our networks or from other program suppliers, and engineering and transmission related expenses. Selling, general and administrative expenses primarily include salaries, sales commissions to account executives, ratings service expenses, insurance and various related overhead expenses. Corporate expenses reflect costs of corporate management, which includes senior management and other centralized management support staff, along with investor relations expenses, professional fees including but not limited to annual audit and legal expenses, directors and officers insurance and other related corporate overhead. Effective January 1, 2013, our primary ongoing operating expenses are corporate expenses and costs associated with our morning news show, *The Daily Buzz*, and music rights fees.

At *The Daily Buzz*, we replaced most all of our on-air talent at the end of June and the beginning of July this year and our new on-air talent debuted in August 2012.

Sale of Stations and Other Events

On May 6, 2011, we completed the sale of WBXX-TV, our station in Knoxville, TN to Lockwood Broadcast Group and on May 20, 2011, we completed the sale of WBDT-TV our Dayton, OH station and WCWF-TV (formerly WIWB-TV) our Green Bay, WI station to LIN Media. The aggregate sales price for the three stations was \$17.1 million.

The WBDT and WCWF sales reflected the exercise of an option by LIN, who had assigned certain purchase rights for WBDT to WBDT Television, LLC. LIN exercised its right under the Option Agreement to pay approximately 50% of the combined purchase price with its common stock and issued 1,150,000 unregistered shares valued at approximately \$4.6 million. The resale of the unregistered common stock was restricted for a period of six months from the date of issuance. Also see Note 2 “*Investment Available-For-Sale*”.

In connection with the WBXX sale on May 6, 2011, we repaid and terminated our Revolving Credit Facility.

On June 13, 2011, our Board of Directors approved a special distribution to our shareholders of record as of June 30, 2011 in the form of a cash distribution of \$.35 per common share which amounted to approximately \$5.6 million. The distribution was payable and paid on July 14, 2011.

On December 9, 2011, our Board of Directors approved a special distribution to our shareholders of LIN unregistered common stock received in connection with LIN’s purchase of the Company’s television stations in Dayton and Green Bay-Appleton. A total of 850,000 shares of LIN unregistered common stock, worth approximately \$3.5 million or 74% of the shares received in the May sale transaction, was distributed pro-rata to ACME shareholders of record at the close of business on December 23, 2011 and distributed on December 29, 2011. Also see Note 2 “*Investment Available-For-Sale*”.

On December 29, 2011, we entered into a settlement agreement with our former national sales representation firm in the amount of \$2.0 million. In connection with the above litigation we had previously recorded a \$3.5 million litigation reserve, which was included in accrued liabilities as of December 31, 2010. As a result and upon settlement of the litigation we reversed the litigation accrual reserve accordingly at December 31, 2011, resulting in a gain of \$1.5 million which is recognized in the Consolidated Statements of Operations.

On February 21, 2012, we completed our sale of station WBUW in Madison, WI to Byrne for approximately \$1.8 million in cash.

On March 23, 2012, our Board of Directors approved a special distribution to our shareholders of record as of April 4, 2012 in the form of a cash distribution of \$.22 per common share which amounted to approximately \$3.5 million and the remaining 300,000 shares of LIN unregistered common stock, worth approximately \$1.3 million, received in connection with LIN's purchase of the Company's television stations in Dayton and Green Bay-Appleton. Both, the cash distribution and LIN stock distribution were paid and distributed on April 10, 2012. See Note 2 "*Investment Available-For-Sale*".

On December 10, 2012, we completed the sale of our New Mexico stations, KWBQ, its satellite station KRWB and KASY to Tamer Media and LIN Media for approximately \$19.0 million in cash.

On December 10, 2012, our Board of Directors approved a special distribution to our shareholders of record as of December 14, 2012 in the form of a cash distribution of \$.93 per common share and also ratified and approved a formal plan of liquidation. The cash distribution which amounted to approximately \$14.9 million was payable and paid on December 21, 2012.

On March 29, 2013, we completed the sale of our last operating asset, *The Daily Buzz*, to Mojo Brands Media, LLC for approximately \$1.5 million in cash. See Note 12 "*Subsequent Events*".

On April 1, 2013, our Board of Directors approved a special distribution to our shareholders of record as of April 16, 2013 in the form of a cash distribution of \$.08 per common share. The cash distribution which amounted to approximately \$1.3 million was payable and paid on April 24, 2013. See Note 12 "*Subsequent Events*".

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, income taxes, contingencies and litigation reserves. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

Results of Operations

Year Ended December 31, 2012 compared to Year Ended December 31, 2011

Net revenues from operations for 2012 were \$14.7 million, a decrease of 20%, or \$3.6 million, compared to net revenues of \$18.3 million for 2011. The decrease is mainly due to the fact that 2011 included revenues from our stations WBXX, WBDT, WIWB which sold in May of 2011 and our WBUW station which was sold in February 2012.

Programming expenses for 2012 were \$7.5 million, a decrease of 21%, or \$2.0 million, compared to \$9.5 million for 2011. The decrease is mainly due to the fact that the 2011 year included programming expense from our stations WBXX, WBDT, WIWB which sold in May of 2011 and our WBUW station which was sold in February 2012.

Other costs of service were \$1.1 million for 2012, a decrease of 51%, or \$1.2 million, compared to \$2.3 million for 2011. The decrease is mainly due to the fact that the 2011 year included our stations WBXX, WBDT, WIWB which sold in May of 2011 and our WBUW station which was sold in February 2012.

Selling, general and administrative expenses were \$3.6 million for 2012, a decrease of 37%, or \$2.1 million, compared to \$5.7 million for 2011. The decrease is mainly due to the fact that the 2011 year included our stations WBXX, WBDT, WIWB which sold in May of 2011 and our WBUW station which was sold in February 2012.

As a result of our \$2.0 million settlement in December 2011 of our litigation with our former national representation firm we recorded a total reversal for \$1.5 million representing the excess reserve of our previously recorded litigation reserve of \$3.5 million during 2010. There was no litigation reserve recorded during 2012.

Depreciation and amortization was \$502,000 for 2012, a decrease of 53%, or \$555,000, compared to \$1.1 million for 2011. The decrease is mainly due to the fact that the 2011 year included our stations WBXX, WBDT, WIWB which sold in May of 2011 and our WBUW station which was sold in February 2012.

There were no impairment charges recorded during 2012 or 2011 related to our FCC broadcast licenses or our goodwill.

Corporate expenses for 2012 were \$2.1 million, an increase of 42%, or 618,000, compared to \$1.5 million for 2011 principally as a result of the net effect of lower compensation expense due to corporate management restructures implemented in July 2011 and lower professional fees but were offset by the management sales bonus incurred and paid in 2012 of \$1.2 million.

The gain on the sale of assets during 2012 was \$3.1 million and related to the sale of our WBUW and KWBQ/KASY stations which sold in February and December of 2012, respectively. The gain on sale of assets during 2011 was approximately \$13.0 million and related mainly to the sale of our WBXX, WBDT and WIWB stations in May 2011.

Income tax benefit for 2012 was \$2.0 million, compared to an income tax expense of \$483,000 for 2011 relating primarily to the difference between book and tax amortization of intangibles. The income tax expense for 2012 is comprised of a \$60,000 current tax expense and a \$2.0 million deferred tax benefit.

Our net income for 2012 was \$4.9 million compared to a net income of \$12.4 million for 2011.

Liquidity and Capital Resources

Net cash used in operating activities was \$1.6 million for 2012, compared to net cash used of \$3.2 million for 2011. The cash flow during 2012 mainly related to an income tax refund (including interest thereon) received in March 2012 of \$520,000 relating to a State of Wisconsin tax matter dating back to 2007, net of the effect of lower program payments to our programming suppliers and seasonal working capital changes while the cash flow usage during 2011 mainly related to the net effect of the funding of our \$3.2 million litigation escrow net of the \$2.0 million settlement, the receipt of our federal tax refund of \$940,000 and the \$775,000 balloon payment made to one of our program suppliers which became due in June 2011 as well as seasonal working capital changes.

Net cash provided by investing activities for 2012 was \$20.8 million consisting mainly of the sales proceeds relating to the sale of our WBUW and KWBQ/KASY stations in February and December of 2012, respectively. Net cash provided by investing activities for 2011 was \$12.2 million consisting mainly of the cash portion of the sales proceeds relating to the sale of our WBXX, WBDT and WIWB stations for approximately \$11.4 million as well as the gross sales proceeds received relating to the sale of our Dayton office building, which was sold in October of 2011.

Net cash used in financing activities was \$20.4 million during 2012 compared to net cash used of \$9.2 million during 2011. Net cash used during 2012 consists mostly of our \$18.5 million distribution payments to our shareholders, the funding of the escrow accounts established in connection with our KWBQ/KASY stations sale for \$1.3 million as well as related program restructure deferral payments. Net cash used in financing activities during 2011 consisted mostly of our \$5.6 million distribution payment to our shareholders, the repayment of program restructure deferral payments in connection with our station sales in May 2011 as well as the payoff of our promissory note and selling expenses of \$656,000 in connection with the sale of our Dayton office building.

As of December 31, 2012, we had cash and cash equivalents of \$942,000 compared to cash and cash equivalent of \$2.1 million as of December 31, 2011.

We believe existing cash and cash equivalents, net of our April 2013 cash dividend paid, including the proceeds received from the sale of *The Daily Buzz* morning news show in March 2013, the restricted cash in our escrow accounts which

become due at various dates through December 2014, will be sufficient to meet our operating cash requirements for at least the next twelve months and to fund the orderly liquidation of the Company.

Recent Accounting Pronouncements

Refer to Note 2, “*Recent Accounting Pronouncements*”, in “Notes to Consolidated Financial Statements”, for a discussion of new accounting standards.

Other Information

On October 14, 2008, we notified the Nasdaq Stock Market of our intent to voluntarily delist our common stock from the Nasdaq Global Market, and to voluntarily deregister our common stock under the Securities Exchange Act of 1934 by filing with the Securities & Exchange Commission (“SEC”) a Form 25 relating to the delisting of our common stock on or about October 24, 2008, with the delisting of our common stock to be effective ten days thereafter.

Our last day of trading of our common stock on the Nasdaq Global Market was on Monday, November 3, 2008.

On November 4, 2008 we filed a Form 15 with the SEC to deregister our common stock under Section 12 of the Securities Exchange Act of 1934. Upon the filing of the Form 15, our obligation to file certain reports with the SEC, including Forms 10-K, 10-Q, and 8K, was immediately suspended. The deregistration of our common stock became effective February 1, 2009.

Our common stock is currently quoted on the Pink Sheets®, a centralized electronic quotation service for over-the-counter securities.

Directors and Executive Officers

The following table sets forth information about our directors and executive officers at December 31, 2012:

<u>Name</u>	<u>Age (1)</u>	<u>Position</u>
Jamie Kellner	65	Chairman of the Board
Douglas Gealy	52	President and Chief Executive Officer and Director
Stan Gill ⁽²⁾	57	Chief Operating Officer
Thomas Allen	60	Director
Michael Corrigan	54	Director
Frederick Wasserman	57	Director

(1) as of March 31, 2013

(2) terminated in February 2013

Jamie Kellner is a co-founder of ACME and is our Chairman of the Board. He served as our Chief Executive Officer from our inception in 1997 until July 2010. Mr. Kellner co-founded The WB Network in 1993 and served as its Chairman and Chief Executive Officer from 1994 until June 2004. Mr. Kellner was President of Fox Broadcasting Company from its inception in 1986 to 1993. Mr. Kellner also served as Chairman and Chief Executive Officer of Turner Networks, a division of AOL-Time Warner, from March 2001 to February 2003.

Douglas Gealy is a co-founder of ACME and has served as our President and, since July 2010, our Chief Executive Officer. Prior to July 2010, Mr. Gealy served as the Company’s President and Chief Operating Officer. He has been a member of our Board since 1997. Before co-founding ACME, Mr. Gealy served for one year as Executive Vice President of Benedek Broadcasting Corporation. From 1991 to 1996, Mr. Gealy was a Vice President and General Manager of WCMH and its local marketing agreement, WWHO, both in Columbus, Ohio, and following the acquisition of these

stations by NBC, served as President and General Manager of these stations.

Stan Gill began serving as ACME's Chief Operating Officer in July 2010. Mr. Gill also serves as Vice President and General Manager of ACME's duopoly, KWBQ / KASY TV in Albuquerque, New Mexico, from 2006 until the stations were sold in December 2012. In July 2010, Mr. Gill also began oversight of ACME's WBUW, in Madison, Wisconsin. From 1999 to 2006 Mr. Gill served as Vice President and General Manager of WBDT and while at WBDT Mr. Gill was also involved and instrumental in taking ACME's The Daily Buzz, a 3 hour live national morning news program, from concept to on-air reality. Prior to joining ACME, Mr. Gill was Vice President at NBC Corporate, Six Sigma Quality Sales Division, New York, New York from 1997 to 1999. A 30 plus year TV and Radio veteran, Mr. Gill has held key management, sales and operations positions at WCMH TV, WBNS TV/Radio and WMNI Radio. As a result of the winding down of the Company, Mr. Gill was terminated in February 2013.

Thomas Allen is a co-founder of ACME and from our inception in 1997 until July 2010 served as our Executive Vice President and Chief Financial Officer. He has been a member of our Board and corporate secretary since 1997 and has served as a consultant to the Company since July 2010. From August 1993 to May 1996, Mr. Allen was the Chief Operating Officer and Chief Financial Officer for Virgin Interactive Entertainment, Inc. Before that Mr. Allen served as Senior Vice President and Chief Financial Officer of the Fox Broadcasting Company from 1986 to 1993. Since July 2010, Mr. Allen has served as Executive Vice President and Chief Financial Officer of Outdoor Channel Holdings, Inc., a national cable network publicly traded on the Nasdaq Global Market. In February 2012, Mr. Allen assumed the additional duty of Chief Operating Officer of Outdoor Channel Holdings, Inc.

Michael Corrigan was appointed to the Board in April 2004. Mr. Corrigan is an experienced media and entertainment executive and consultant. He currently serves on the boards of a number of privately held entertainment companies. He has previously served as a member of the Board of Directors and Chairman of the Audit Committee of Tropicana Entertainment Inc., a gaming company and as Chairman of the board of Directors of Atari Inc., a game publisher and distributor. Mr. Corrigan was formerly Senior Executive Vice President and Chief Financial Officer of Metro Goldwyn Mayer Inc. and prior thereto was a senior partner in the entertainment, Media and Communications practice at Price Waterhouse.

Frederick Wasserman has served as a member of our Board since December 2006. Mr. Wasserman currently is President of FGW Partners LLC, which provides financial and management consultant services. From 2005 through 2006, Mr. Wasserman served as Chief Operating and Chief Financial officer of Mitchell & Ness Nostalgia Company, a manufacturer and distributor of licensed sportswear. From 2001 through 2005, he served as Chief Financial Officer and then President of Goebel of North America, an international manufacturer of collectibles, gifts and home decor. Mr. Wasserman serves on the board of directors of Breeze-Eastern Corporation and DLH Holdings, Inc., both publicly traded companies on the Nasdaq Capital Market. In addition, Mr. Wasserman also serves on the board of directors of Gilman Ciocia, Inc. and MAM Software Group, both publicly traded companies on the OTC Bulletin Board.

Transfer Agent and Stock Registrar

Our transfer agent and stock registrar is Computershare at 250 Royall St., Canton, MA 02021.

Financial Statements

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

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ACME Communications, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share data)

	December 31, 2012	December 31, 2011
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 942	\$ 2,118
Restricted cash	1,290	50
Accounts receivable, net of allowance for doubtful accounts of \$302 and \$642 as of December 31, 2012 and December 31, 2011, respectively	1,063	3,589
Investments available-for-sale	---	1,269
Programming rights, current portion	---	2,011
Prepaid expenses and other current assets	149	696
Total current assets	3,444	9,733
Property and equipment, net	188	1,859
Programming rights, net of current portion	---	2,489
Goodwill, net	---	11,401
Broadcast licenses, net	---	3,359
Other assets	15	28
Total assets	\$ 3,647	\$ 28,869
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 182	\$ 1,296
Accrued liabilities	1,092	1,511
Programming rights payable, current portion	---	2,524
Obligations under capital lease, current portion	---	54
Other liabilities, current portion	---	613
Income taxes payable	394	362
Total current liabilities	1,668	6,360
Programming rights payable, net of current portion	---	3,001
Obligations under capital lease, net of current portion	---	599
Other liabilities, net of current portion	40	149
Deferred income taxes	---	2,030
Total liabilities	1,708	12,139
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, no shares issued or outstanding	---	---
Common stock, \$0.01 par value; 50,000,000 shares authorized, 16,046,763 shares issued and outstanding at December 31, 2012 and 16,772,415 and 16,046,763 shares issued and outstanding at December 31, 2011	161	168
Additional paid-in capital	128,011	133,004
Accumulated deficit	(126,233)	(111,515)
Accumulated other comprehensive income	---	73
Treasury stock, at cost; 725,652 shares	---	(5,000)
Total stockholders' equity	1,939	16,730
Total liabilities and stockholders' equity	\$ 3,647	\$ 28,869

See the accompanying notes to the unaudited consolidated financial statements.

ACME Communications, Inc. and Subsidiaries
Consolidated Statements of Operations and Comprehensive Income
(In thousands, except per share data)

	For the Years Ended	
	December 31,	
	2012	2011
	(unaudited)	
Net revenues	<u>\$ 14,698</u>	<u>\$ 18,333</u>
Operating expenses:		
Cost of service:		
Programming, including program amortization	7,513	9,481
Other costs of service (excluding depreciation and amortization of \$502 and \$1,057 for the years ended December 31, 2012 and 2011, respectively)	1,128	2,303
Selling, general and administrative expenses	3,616	5,699
Litigation reserve reversal	---	(1,499)
Depreciation and amortization	502	1,057
Corporate expenses	2,096	1,478
Operating expenses	<u>14,855</u>	<u>18,519</u>
Operating loss	(157)	(186)
Other expenses:		
Gain on sale of assets	3,113	13,013
Interest income (expense), net	<u>(59)</u>	<u>30</u>
Income from discontinuing operations, before income taxes	2,897	12,857
Income tax benefit (expense)	<u>1,970</u>	<u>(483)</u>
Net income	4,867	12,374
Change in fair value on investment available-for-sale	(73)	73
Comprehensive income	<u>\$ 4,794</u>	<u>\$ 12,447</u>
Net income per share, basic and diluted (discontinued):	<u>\$ 0.30</u>	<u>\$ 0.77</u>
Weighted average basic and diluted common shares outstanding	<u>16,047</u>	<u>16,047</u>

See the accompanying notes to the unaudited consolidated financial statements.

ACME Communications, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(In thousands)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balance at December 31, 2010	16,772	\$ 168	\$ 133,004	\$ (114,762)	\$ -	\$ (5,000)	\$ 13,410
Change in fair value on investment available-for-sale	---	---	---	---	73	---	73
Net income	---	---	---	12,374	---	---	12,374
Shareholder distribution	---	---	---	(9,127)	---	---	(9,127)
Balance at December 31, 2011	16,772	168	133,004	(111,515)	73	(5,000)	16,730
Change in fair value on investment available-for-sale	---	---	---	---	(73)	---	(73)
Net income	---	---	---	4,867	---	---	4,867
Cancellation of treasury stock	(726)	(7)	(4,993)	---	---	5,000	---
Shareholder distribution	---	---	---	(19,585)	---	---	(19,585)
Balance at December 31, 2012 (unaudited)	16,046	\$ 161	\$ 128,011	\$ (126,233)	\$ -	\$ -	\$ 1,939

See the accompanying notes to the unaudited consolidated financial statements.

ACME Communications, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

	For the Years Ended December 31,	
	2012	2011
	(unaudited)	
Cash flows from operating activities:		
Net income	\$ 4,867	\$ 12,374
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for doubtful accounts receivable	184	84
Depreciation and amortization	502	1,057
Gain on sale of assets	(3,113)	(13,013)
Amortization of program rights	1,574	3,216
Amortization of prepaid financing costs	---	54
Deferred income tax provision (benefit)	(2,030)	724
Changes in operating assets and liabilities:		
Accounts receivable	(49)	2,290
Prepaid expenses and other current assets	587	434
Other assets	(31)	9
Accounts payable	(1,114)	(2,185)
Accrued liabilities	(504)	(3,739)
Income taxes payable	32	(972)
Programming rights payable	(1,816)	(3,590)
Other liabilities	(718)	57
Net cash used in operating activities	(1,629)	(3,200)
Cash flows from investing activities:		
Purchase of property and equipment	(27)	(25)
Proceeds from sale of property and equipment	---	805
Proceeds from sale of station assets	20,858	11,396
Net cash provided by in investing activities	20,832	12,176

See the accompanying notes to the unaudited consolidated financial statements.

ACME Communications, Inc. and Subsidiaries
Consolidated Statements of Cash Flows - Continued
(In thousands)

	For the Years Ended	
	December 31,	
	2012	2011
	(unaudited)	
Cash flows from financing activities:		
Borrowings under revolving credit facility	\$ ---	\$ 1,000
Repayments under revolving credit facility	---	(1,000)
Repayments of program deferrals	(631)	(2,866)
Payments on capital lease obligations	(54)	(51)
Repayment of promissory note for Dayton office building	---	(656)
Cash restricted as escrow deposits	(1,240)	---
Cash distribution to shareholders	(18,454)	(5,616)
Net cash used in financing activities	(20,379)	(9,189)
Decrease in cash and cash equivalents	(1,176)	(213)
Cash and cash equivalents at beginning of the year	2,118	2,331
Cash and cash equivalents at end of the year	\$ 942	\$ 2,118
Net cash payments for:		
Interest	\$ 59	\$ 125
Taxes	\$ 28	\$ 27
Non-cash transactions:		
Program rights in exchange for program rights payable	\$ 388	\$ 1,407
Fair value of non-cash proceeds of 1,150,000 shares of LIN TV Corp unregistered common stock received in connection with the WBDT and WIWB station sales	\$ ---	\$ 4,585
Shareholder distribution of LIN TV Corp. stock	\$ 1,131	\$ 3,511
	\$ 1,519	\$ 9,503

See the accompanying notes to the unaudited consolidated financial statements.

ACME Communications, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. NATURE OF BUSINESS

The Company commenced operations in 1997 and ACME Communications, Inc. was formed as the Company's holding company on July 23, 1999, in preparation for and in conjunction with an initial public offering of its stock.

ACME Communications, Inc. (together with its subsidiaries, hereinafter, individually and collectively, "ACME" or the "Company") is a holding company with no independent operations other than through its indirect wholly-owned subsidiary, ACME Television, LLC ("ACME Television").

Effective November 4, 2008, the Company's common stock was delisted from the Nasdaq Global Market and on that same day the Company filed a Form 15 with the U.S. Securities & Exchange Commission ("SEC") to deregister its common stock under Section 12 of the Securities Exchange Act of 1934. Upon the filing of the Form 15, the Company's obligation to file certain reports with the SEC, including Forms 10-K, 10-Q, and 8-K, was immediately suspended. The deregistration of the Company's common stock became effective February 1, 2009. The Company's common stock is currently quoted on the Pink Sheets®, a centralized electronic quotation service for over-the counter securities.

As of December 31, 2012, the Company had completed the sale of all of its previously owned television stations and the Company's only remaining asset was The Daily Buzz, LLC, which produces the weekday morning news and lifestyle television program *The Daily Buzz*, a nationally syndicated program. The Company completed the sale of the *The Daily Buzz* subsequent to year-end. Also see "*Sale of Stations and Other Events*"

Sale of Stations and Other Events

On May 6, 2011, the Company completed the sale of WBXX, its station in Knoxville, TN to Lockwood Broadcast Group and on May 20, 2011, the Company completed the sale of WBDT, its Dayton, OH station and WCWF (formerly WIWB) its Green Bay-Appleton, WI station to LIN. The aggregate sales price for the three stations was \$17.1 million. In connection with the sale of the Company's WBDT and WCWF stations, LIN exercised its right under their option agreement to pay approximately 50% of the combined purchase price with unregistered shares of LIN's common stock and issued the Company 1,150,000 shares of unregistered common stock valued at approximately \$4.6 million. The resale of the unregistered common stock was restricted for a period of six months from the date of issuance. Also see Note 2 "*Investment Available-For-Sale*".

On June 13, 2011, the Company's Board of Directors approved a special distribution to its shareholders of record as of June 30, 2011 in the form of a cash distribution of \$.35 per common share which amounted to approximately \$5.6 million. The distribution was payable and paid on July 14, 2011.

On December 9, 2011, the Company's Board of Directors approved a special distribution to its shareholders of LIN unregistered common stock received in connection with LIN's purchase of the Company's television stations in Dayton and Green Bay-Appleton. A total of 850,000 shares of LIN unregistered common stock, worth approximately \$3.5 million or 74% of the shares received in the May sale transaction, was distributed pro-rata to ACME shareholders of record at the close of business on December 23, 2011 and distributed on December 29, 2011. Also see Note 2 "*Investment Available-For-Sale*".

On December 13, 2011, the Company entered into a definite agreement to sell WBUW in Madison, WI to Byrne Acquisition Group, LLC ("Byrne") for \$1.8 million. The sale was approved by the FCC on February 10, 2012. The Company completed the WBUW sale on February 21, 2012.

On December 29, 2011, the Company entered into a settlement agreement with its former national sales representation firm in the amount of \$2.0 million. See Note 7 "*Legal Proceedings*".

On March 23, 2012, the Company's Board of Directors approved a special distribution to its shareholders of record as of April 4, 2012 in the form of a cash distribution of \$.22 per common share which amounted to approximately \$3.5 million and the remaining 300,000 shares of LIN unregistered common stock (.018695 shares of LIN unregistered common stock per every common share of the Company's stock) received in connection with LIN's purchase of the Company's television

stations in Dayton and Green Bay-Appleton. Both, the cash distribution and LIN stock distribution were paid and distributed on April 10, 2012.

On December 10, 2012, the Company completed the sale of its New Mexico stations, KWBQ, its satellite station KRWB and KASY to Tamer Media and LIN Media for approximately \$19.0 million in cash.

On December 10, 2012, the Company's Board of Directors approved a special distribution to its shareholders of record as of December 14, 2012 in the form of a cash distribution of \$.93 per common share and also ratified and approved a formal plan of liquidation. The cash distribution which amounted to approximately \$14.9 million was paid on December 21, 2012.

On March 29, 2013, the Company completed the sale of its last operating asset, *The Daily Buzz*, to Mojo Brands Media, LLC for approximately \$1.5 million in cash. See Note 12 "*Subsequent Events*".

On April 1, 2013, the Company's Board of Directors approved a special distribution to its shareholders of record as of April 16, 2013 in the form of a cash distribution of \$.08 per common share. The cash distribution which amounted to approximately \$1.3 million was payable and paid on April 24, 2013. See Note 12 "*Subsequent Events*".

Discontinued Operations

The Company sold eight of its stations – KPLR (St. Louis), KWBP (Portland, OR), KUWB (Salt Lake City), WTVK (Ft. Myers-Naples) and WBUI (Champagne-Springfield-Decatur, IL) in previous periods, including WBXX (Knoxville, TN) and both the WBDT (Dayton, OH) and WCWF (Green Bay, WI) stations on May 6, 2011 and May 20, 2011, respectively.

In February 2012, the Company sold WBUW (Madison, WI) and in December 2012, the Company sold its remaining television stations KWBQ and its satellite station KRWB, and KASY (Albuquerque-Santa Fe, NM) – also see Note 1 above "*Sale of Stations and Other Events*".

In accordance with accounting principles generally accepted in the United States of America, the accompanying Consolidated Statements of Operations and Cash Flows reflect now the results of these television stations and the Company's remaining operation pursuant to the approved plan of liquidation as discontinued for all periods presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, including The Daily Buzz, LLC. All significant intercompany accounts and transactions have been eliminated for all periods presented. Segment information is not presented since all of the Company's revenues are attributed to a single reportable segment.

Basis of Presentation

The accompanying Consolidated Financial Statements as of and for the year ended December 31, 2012 are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America. As of and for the years ended December 31, 2012 and 2011 all operations are considered "*Discontinued Operations*". In the opinion of management, such consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of the financial position and the results of operations, and cash flows for these periods.

The accompanying Consolidated Financial Statements as of and for the year ended December 31, 2011 are derived from the audited consolidated financial statements included in the Company's 2011 Annual Report.

In accordance with the Financial Accounting Standards Board (the "FASB") *Accounting Standards Codification*TM ("ASC") Topic 855, *Subsequent Events*, or ASC 855, the Company evaluated all events or transactions that occurred after December 31, 2012 through April 24, 2013, which represents the date the Consolidated Financial Statements were available to be issued.

Reclassification

The Consolidated Balance Sheet at December 31, 2011 and the Consolidated Statements of Operations and Cash Flows for the year ended December 31, 2011 have been reclassified to conform to current year presentation in accordance with the authoritative guidance for discontinued operations.

Revenue Recognition

The Company derives revenues primarily from the sale of advertising time to local, regional and national advertisers and, to a lesser extent, from program licensing fees from other stations and distributors related to *The Daily Buzz*. Revenue from the sale of airtime related to advertising and contracted time is recognized at the time of broadcast. The Company records such revenues net of commissions of advertising agencies and national sales representatives. The Company recognizes retransmission consent fees in the period in which the Company's television shows are rebroadcasted to other networks.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash that is restricted and pledged as collateral for capital lease obligations or is escrowed in connection with pending acquisitions, including acquisitions of construction permits, is considered restricted cash.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are presented net of the related allowance for doubtful accounts which totaled \$302,000 and \$642,000 at December 31, 2012 and 2011, respectively. The Company does not charge interest on past due receivables. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company utilizes information available to it, including the timing of payments and the financial condition of our customers, to estimate its allowance for doubtful accounts. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company does not have a significant concentration of accounts receivable from any single customer or industry segment.

Investments Available-For-Sale

Available-for-sale investments consist of equity securities, which are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value and unrealized holding gains and losses are excluded from earnings and are reported as a separate component of comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value. Any resulting impairment is charged to other expense and a new cost basis for the security is established.

At December 31, 2011, the Company held one investment available-for-sale asset, which was comprised of the remaining 300,000 shares of LIN unregistered common stock, issued in connection with LIN's purchase of the Company's WBDT and WCWF (formerly WIWB) stations in May 2011, see Note 1. The resale of these shares was originally restricted and subject to a six-month holding period from date of acquisition which expired in November 2011. Based on the closing market price on the sale date less a discount for lack of marketability, the value of the 1,150,000 shares was approximately \$4.6 million. At December 31, 2011 the value of the remaining 300,000 shares was approximately \$1,269,000. The unrealized gain of the investment was approximately \$73,000 at December 31, 2011 and is recorded in accumulated other comprehensive income in the Company's Consolidated Balance Sheets (see Note 11 "*Accumulated Other Comprehensive Income*"). In connection with the distribution of the 850,000 shares of LIN unregistered common stock on December 29, 2011, the Company realized a gain of \$122,000 included in income in the Consolidated Statements of Operations. Also see Note 1 "*Sale of Stations and Other Events*" Note 4 "*Fair Value Measurements*".

On April 10, 2012, as part of a special distribution to its shareholders, the Company distributed the remaining 300,000 shares of LIN unregistered common stock received in connection with LIN's purchase of the Company's television stations in Dayton and Green Bay-Appleton and accordingly at December 31, 2012 the Company did not have any investment

available-for-sale. Also see Note 11 “*Accumulated Other Comprehensive Income*”.

Concentration of Credit Risk and Fair Value of Financial Instruments

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable and cash. Due to the short-term nature of these instruments, the carrying value approximates the fair value. The Company believes that concentrations of credit risk with respect to accounts receivable, which are unsecured, are limited due to the Company's ongoing relationship with its clients and limited exposure to any one customer. The Company provides its estimate of uncollectible accounts. The Company has not experienced significant losses relating to accounts receivable. The Company may be exposed to credit loss for amounts in excess of the Federal Deposit Insurance Corporation insurance limit of \$250,000 per owner, in the event of non-performance by the institutions; however, the Company does not anticipate non-performance by these financial institutions.

The carrying amounts reported in the Consolidated Balance Sheets for accounts receivable and accounts payable approximate fair values because of the immediate or short-term maturity of these financial instruments.

Goodwill and Indefinite Life Intangible Assets

In accordance with FASB ASC Topic 350-30, *Intangibles — Goodwill and Other*, Goodwill, or ASC 350-30, Goodwill and indefinite life intangible assets are not amortized but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the assets might be impaired. In assessing the recoverability of goodwill and indefinite life intangible assets, the Company must make assumptions about the estimated future cash flows and other factors to determine the fair value of these assets.

For goodwill, the impairment evaluation includes a comparison of the carrying value of the reporting unit (including goodwill) to that reporting unit's fair value. If the reporting unit's estimated fair value exceeds the reporting unit's carrying value, no impairment of goodwill exists. If the fair value of the reporting unit does not exceed the unit's carrying value, then an additional analysis is performed to allocate the fair value of the reporting unit to all of the assets and liabilities of that unit as if that unit had been acquired in a business combination and the fair value of the unit was the purchase price. If the excess of the fair value of the reporting unit over the fair value of the identifiable assets and liabilities is less than the carrying value of the unit's goodwill, an impairment charge is recorded for the difference.

Similarly, the impairment evaluation for indefinite life intangible assets includes a comparison of the asset's carrying value to the asset's fair value. When the carrying value exceeds fair value an impairment charge is recorded for the amount of the difference. An intangible asset is determined to have an indefinite useful life when there are no legal, regulatory, contractual, competitive, economic or any other factors that may limit the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the Company. The Company also evaluates annually intangible assets that are not being amortized to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is determined to have a finite useful life, the asset will be amortized prospectively over the estimated remaining useful life and accounted for in the same manner as intangible assets subject to amortization. The annual impairment testing date is December 31. The Company will also test for impairment between annual test dates if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is performed at a reporting unit level. An impairment loss would generally be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit.

Intangible assets with indefinite lives consist of FCC broadcast licenses and goodwill. The Company had no such assets at December 31, 2012. There were no impairment charges recorded on the Company's FCC broadcast licenses and goodwill during the years ended December 31, 2012 and 2011.

Long-Lived Assets, Including Intangibles Subject to Amortization

The Company assesses the recoverability of long-lived assets at least annually or whenever adverse events or changes in circumstances indicate that impairment may have occurred in accordance with FASB ASC Topic 360-10-05, *Property, Plant, and Equipment, Impairment or Disposal of Long-Lived Assets*, or ASC 360-10-05. If the future undiscounted cash flows expected to result from the use of the related assets are less than the carrying value of such assets, an impairment has been incurred and a loss is recognized to reduce the carrying value of the long-lived assets to fair value, which is determined by discounting estimated future cash flows.

Depreciation and amortization of the Company's long-lived assets is provided using the straight-line method over their estimated useful lives. Changes in circumstances, such as the passage of new laws or changes in regulations, technological advances, changes to the Company's business model or changes in capital strategy could result in the actual useful lives differing from initial estimates. In those cases where the Company determines that the useful life of a long-lived asset should be revised, the Company will depreciate the net book value in excess of the estimated residual value over its revised remaining useful life. Factors such as changes in the planned use of equipment, customer attrition, contractual amendments or mandated regulatory requirements could result in shortened useful lives.

Long-lived assets and asset groups are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made.

Long-lived assets consist of program rights and property and equipment.

Program rights represent costs incurred for the right to broadcast certain features and syndicated television programs. Program rights are stated on a gross basis, at the lower of amortized cost or estimated realizable value. Generally, program rights are amortized over the life of the contract on a straight-line basis related to the usage of the program. Any reduction in unamortized costs to net realizable value is included in amortization of program rights in the accompanying Consolidated Statements of Operations. The Company evaluates estimated realizable value of program rights based on current usage and revenue performance and projected future revenue and usage of such programs. Changes in the Company's programming schedule could impact the estimated realizable value of programming. In addition, estimates of future revenue performance relate to the number of advertising spots the Company sells and the amount generated from such sales. A decrease in the number of spots sold or the amount for such sales could also impact the estimated realizable value. During the year ended December 31, 2012 the Company did not record any write-downs of program rights and for the year ended December 31, 2011, the Company recorded write-downs of program rights due to impairments of \$2,000.

The portion of the program rights estimated to be amortized within one year and after one year is reflected in the Consolidated Balance Sheets as current and non-current assets, respectively. The gross payments under these contracts that are due within one year and after one year are similarly classified as current and non-current liabilities. The Company had no program rights as of December 31, 2012.

Property and equipment are stated at cost. The cost of maintenance is expensed when incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets, or for leasehold improvements, the shorter of useful lives or the lease term. When property is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included in the results of current operations. The principal lives used in determining depreciation rates of various assets are as follows:

Buildings and improvements	20 - 40 years
Broadcast and other equipment	3 - 20 years
Furniture and fixtures	5 - 7 years
Vehicles	5 years

Long-lived assets and asset groups are evaluated for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. There was no impairment charge recorded during the years ended December 31, 2012 or 2011.

Barter and Trade Transactions

Revenue and expenses associated with barter agreements in which broadcast time is exchanged for programming rights are recorded at the estimated average rate of the airtime exchanged, which the Company believes approximates fair value. Barter revenue amounted to approximately \$1,063,000 and \$1,666,000 for the years ended December 31, 2012 and 2011, respectively. Trade transactions, which represent the exchange of advertising time for goods or services, are recorded at the estimated fair value of the products or services received based on comparable cash transactions. Barter and trade revenues are recognized when advertisements are broadcast. Merchandise or services received from airtime trade sales are charged to

expense or capitalized and expensed when used.

Advertising Expenses

The Company records advertising expense when the advertising is run. Production costs associated with such advertising are expensed upon the initial air date of the advertising. Advertising expense, which consists primarily of media costs, production costs and promotion staff salaries and related costs, is included in other costs of service in the Consolidated Statements of Operations and was \$479,000 and \$804,000, for the years ended December 31, 2012 and 2011, respectively.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*, or ASC 740. Income taxes are provided based on current taxable income and the future tax consequences of temporary differences between the basis of assets and liabilities for financial and tax reporting. The deferred income tax assets and liabilities represent the future state and federal tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred income taxes are also recognized for operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes. At each reporting period, management assesses the realizable value of deferred tax assets based on, among other things, estimates of future taxable income, and adjusts the related valuation allowance as necessary. Management makes a number of assumptions and estimates in determining the appropriate amount of expense to record for income taxes. These assumptions and estimates consider the taxing jurisdiction in which the Company operates as well as current tax regulations. Accruals are established for estimates of tax effects for certain transactions and future projected profitability of the Company's businesses based on management's interpretation of existing facts and circumstances.

ASC 740 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. A tax position that meets the "more-likely-than-not" criterion shall be measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. The Company has reviewed its tax positions and determined that an adjustment to the tax provision is not considered necessary nor is a reserve for income taxes required. When necessary, the Company would accrue interest related to uncertain tax positions as a component of interest expense and penalties as a component of income tax expense.

Income (Loss) per Share

Basic income (loss) per common share is computed by dividing net income (loss) to common stockholders by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share includes the effect of the Company's outstanding stock options, if including such instruments is dilutive.

During the year ended December 31, 2012, 97,750 stock options expired or were forfeited reducing our stock options outstanding at December 31, 2012 to 681,000 shares compared to stock options outstanding at December 31, 2011 of 778,750.

Stock-Based Compensation

FASB ASC Topic 718 *Compensation — Stock Compensation*, or ASC 718, requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. There were no stock options granted or any other type of share-based issuances during the years ended December 31, 2012 and 2011. There was no stock-based compensation expense during the years ended December 31, 2012 or 2011.

As of December 31, 2012, there was no unrecognized compensation cost related to unvested stock options.

Use of Estimates in the Preparation of Financial Statements

The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its

estimates, including those related to bad debts, income taxes, and contingencies and litigation reserves. The Company bases its estimates on historical experience and on various other assumptions that they believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions. In addition, changes in market conditions or stations' actual or expected performance could materially affect future estimated fair values of the Company's stations or of the estimated fair value of the Company's intangible assets, including the Company's broadcast licenses and goodwill.

Recent Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account instead of directly to income or expense in the same reporting period. This update is effective on a prospective basis for reporting periods beginning after December 15, 2012, which for the Company is January 1, 2013. The Company does not expect that adopting this update will have a material impact on its consolidated financial statements.

In April 2013, the FASB issued ASU No. 2013-07, Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting, which is effective for interim and annual reporting periods beginning after December 15, 2013, with early adoption permitted. Since the Company is in a liquidation stage it expects to adopt this standard when effective or earlier as permitted.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2012	December 31, 2011
	(in thousands)	
Land, buildings and improvements	\$ 150	\$ 1,332
Broadcast and other equipment	1,965	14,228
Furniture and fixtures	1,360	2,458
Vehicles	38	107
Total property and equipment, at cost	<u>3,512</u>	<u>18,124</u>
Less: Accumulated depreciation and amortization	<u>(3,324)</u>	<u>(16,266)</u>
Property and equipment, net	<u>\$ 188</u>	<u>\$ 1,859</u>

At December 31, 2012 property and equipment consists mainly of assets of the Company's remaining operating asset "*The Daily Buzz*" as well as at the Company's corporate headquarters. Also see Note 1 "*Sale of stations and Other Events*" and Note 12 "*Subsequent Events*".

On October 27, 2011, the Company sold its Dayton Studio building for \$775,000. The Company recorded a gain of \$7,000 which is included in the accompanying Consolidated Statements of Operations.

Included in property and equipment at December 31, 2011 are assets subject to capital leases with a total cost of \$1,082,000. The asset was fully depreciated at December 31, 2011. There are no assets subject to a capital lease at December 31, 2012.

4. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, or ASC 820, applies to certain assets and liabilities that are being measured and reported on a fair value basis. Broadly, the ASC 820 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC 820 also establishes a fair value hierarchy for ranking the quality and reliability of the information used to determine fair values. This hierarchy is as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis:

Available-for-sale securities are recorded at fair value and unrealized holding gains and losses are excluded from earnings and are reported as a separate component of comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary, results in a reduction in the carrying amount to fair value. Any resulting impairment is charged to other income (expense) and a new cost basis for the security is established.

The Company's investment in LIN unregistered common stock is classified within Level 2 of the fair value hierarchy because it is valued using market prices less a discount for lack of marketability. The Company records the investment on the Consolidated Balance Sheet at fair value with changes in fair value recorded as a component of other comprehensive income (loss) in the Consolidated Balance Sheets (see Note 13).

Under the guidance of ASC 320, "*Investments*", the Company periodically evaluates other-than-temporary impairment (OTTI) of these securities to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding impairment charge to earnings is recognized.

The Company has evaluated its investment in LIN stock as of December 31, 2011, and has determined that there were no unrealized losses that indicate an other-than-temporary impairment. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis and the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

On April 10, 2012, as part of a special distribution to its shareholders, the Company distributed the remaining 300,000 shares of LIN unregistered common stock received in connection with LIN's purchase of the Company's television stations in Dayton and Green Bay-Appleton and accordingly at December 31, 2012 the Company did not have any investment available-for-sale. Also see Note 12 "*Accumulated Other Comprehensive Income*".

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis:

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. Included in this category are goodwill written down to fair value when determined to be impaired, assets and long-lived assets including FCC broadcast licenses that are written down to fair value when they are held for sale or determined to be impaired. The valuation methods for goodwill, assets and liabilities resulting from business combinations, and long-lived assets involve assumptions concerning interest and discount rates, growth projections, and/or other assumptions of future business conditions. As all of the assumptions employed to measure these assets and liabilities on a nonrecurring basis are based on management's judgment using internal and external data, these fair value determinations are classified in Level 3 of the valuation hierarchy.

5. NOTES PAYABLE UNDER REVOLVING CREDIT FACILITY

The Company repaid and terminated its Revolving Credit Facility in May 2011 in connection with the sale of its WBXX station – see Note 1 “*Sale of Stations and Other Events*”. Accordingly, at December 31, 2012 and 2011, the Company had no outstanding amounts under its Revolver or any other borrowing arrangements.

6. NOTES PAYABLE SECURED BY TRUST DEED

The Company purchased its Dayton studio facility in 2010 for \$950,000. The Company financed the purchase with a \$650,000 Promissory Note with interest at seven percent (7%) per annum on the unpaid principal balance, payable in thirty six (36) equal consecutive monthly installments of approximately \$5,000 with all remaining principal and interest due and payable on April 3, 2013. On October 27, 2011, the Company sold its Dayton studio facility and paid off the Promissory Note. Accordingly, at December 31, 2012 and 2011, the Company had no outstanding amounts under this facility.

7. COMMITMENTS AND CONTINGENCIES

Obligations Under Operating Leases

The Company is obligated under non-cancelable operating leases for office space and office equipment. Future minimum lease payments under non-cancelable operating leases as of December 31, 2012 are:

<u>For the year ended December 31:</u>	<u>In thousands</u>
2013	\$ 64
Thereafter	-
Total	<u>\$ 64</u>

Total rental expense under operating leases for the years ended December 31, 2012 and 2011 was approximately \$294,000 and \$298,000, respectively.

Obligations Under Capital Leases

As of December 31, 2012, the Company had no equipment that was leased under capital equipment facilities.

Other Commitments

The Company has other commitments for goods and services not included in its Consolidated Balance Sheet, including agreements for ratings services and license fees for websites. Those commitments for continuing operations for the next five years are as follows:

<u>For the year ended December 31:</u>	<u>In thousands</u>
2013	\$ 392
2014	30
Thereafter	-
Total	<u>\$ 422</u>

Legal Proceedings

The Company was involved in a lawsuit brought by its former national sales representation firm in 2009. On March 21, 2011, the Company received an unfavorable judgment in connection with the above mentioned lawsuit. The order and decision granted by the New York Supreme Court granted Plaintiff’s motion for summary judgment and awarded the plaintiff a \$2.4 million breakup fee as well as interest thereon, and other costs and disbursements to be submitted by plaintiff.

In connection with the above judgment the Company recorded a litigation reserve, which was included in accrued liabilities in the accompanying Consolidated Balance Sheet as of December 31, 2010, for approximately \$3.5 million consisting of the “break-up” fee, together with interest at 9% per annum as well as an estimate of plaintiff’s costs and other

disbursements. On December 29, 2011, the Company settled the above litigation for \$2.0 million including legal fees and interest. As a result and upon settlement of the litigation the Company reversed \$1.5 million of its litigation accrual reserve at December 31, 2011.

8. INCOME TAXES

The income tax (benefit) expense consists of the following:

	<u>Year ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
	(In thousands)	
Continuing Operations:		
Current:		
Federal	\$ ---	\$ ---
State	60	(241)
Total current tax expense (benefit)	<u>60</u>	<u>(241)</u>
Deferred:		
Federal	\$ (1,805)	\$ 644
State	(225)	80
Total deferred tax expense (benefit)	<u>(2,030)</u>	<u>724</u>
Total income tax expense (benefit)	<u>\$ (1,970)</u>	<u>\$ 483</u>

The differences between the income tax benefit for continuing operations and income taxes computed using the U.S. federal statutory income tax rates (34%) consist of the following:

	<u>Year ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
	(In thousands)	
Tax benefit at U.S. federal statutory rate	\$ (3,572)	\$ (146)
State income taxes, net of federal tax benefit	(164)	(64)
Increase (decrease) in valuation allowance	(1,602)	179
Other expense	<u>3,368</u>	<u>514</u>
Income tax expense (benefit)	<u>\$ (1,970)</u>	<u>\$ 483</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are summarized as follows:

	Year ended December 31,	
	2012	2011
	(In thousands)	
Deferred tax assets:		
Accrued vacation	\$ 10	\$ 42
AMT credits	568	524
Bad debt and other reserves	116	245
Deferred income	---	43
Litigation reserve	---	---
Deferred compensation	---	1,239
Intangible amortization	---	377
Net operating loss carryforward	28,413	33,020
Other	24	200
Total deferred tax assets	<u>29,131</u>	<u>35,690</u>
Less: valuation allowance	<u>(29,166)</u>	<u>(35,473)</u>
Deferred tax assets	<u>(35)</u>	<u>217</u>
Deferred tax liabilities:		
Property and equipment depreciation	35	(31)
Intangible amortization	---	(2,029)
Other	---	(187)
Deferred tax liabilities	<u>35</u>	<u>(2,247)</u>
Net deferred income tax liabilities	<u>\$ ---</u>	<u>\$ (2,030)</u>

In assessing the realizability of deferred tax assets, management considered whether it is more likely than not that some portion or all deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which the differences become tax deductible. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is not more likely than not that the deferred tax assets will be realized. Accordingly, the Company has recorded a valuation allowance of \$29.2 million and \$35.5 million, respectively as of December 31, 2012 and 2011. At December 31, 2011, the Company had, for federal and state tax purposes, net operating loss carryforwards of approximately \$73.6 million that expire at various dates through 2032. The Company has established a full valuation allowance against its deferred tax assets, including the net operating loss carryforwards, due to the uncertainty surrounding the realization of such assets.

The Company is subject to taxation in the United States and various states and is generally open to examination from the year ended December 31, 2008 forward.

9. DEFINED CONTRIBUTION PLAN

In 1998, the Company established a 401(k) defined contribution plan (the "Plan") which covers all eligible employees (as defined in the Plan). Participants are allowed to make non-forfeitable contributions up to 50% of their annual salary, but may not exceed the annual maximum contribution limitations established by the Internal Revenue Service. The Plan provides for the Company to match 50% of the amounts contributed by each participant, but not match participants' contributions in excess of 6% of their compensation per pay period. The Company suspended its matching contributions effective January 1, 2009 and, accordingly, there were no matching contributions or expense in the years ended December 31, 2012 and 2011.

10. STOCK OPTION COMPENSATION

The Company's 1999 Stock Incentive Plan provides additional means to attract, motivate, reward and retain key personnel. The Compensation Committee of the Board of Directors (the plan administrator) has the authority to grant different types of stock and cash incentive awards and to select participants. While only stock options and restricted stock awards are contemplated at this time, other forms of awards may be granted to give the Company's flexibility to structure future incentives. The Company's employees, officers, directors, and consultants may be selected to receive awards under the plan.

A maximum of 4,200,000 shares of the Company's common stock may be issued under the plan, (approximately 26% of the Company's current outstanding shares). As of December 31, 2012, 3,519,000 shares are reserved and available for future exercises of stock options. The number of shares subject to all awards granted under the plan to any one person in a calendar year cannot exceed 1,000,000 shares. Performance-based awards payable solely in cash that are granted under the plan to any one person in a calendar year cannot provide for payment of more than \$1,000,000.

Each share limit and award under the plan is subject to adjustment for certain changes in the Company's capital structure, reorganizations and other extraordinary events. Shares subject to awards that are not paid or exercised before they expire or are terminated are available for future grants under the plan.

A summary of the status of the Company's 1999 Stock Incentive Plan, and changes for the years ended December 31, 2012, and 2011 is presented below:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 2010	793,750	\$ 6.47
Granted	---	---
Exercised	---	---
Forfeited	(15,000)	7.09
Outstanding at December 31, 2011	778,750	\$ 6.47
Granted	---	---
Exercised	---	---
Forfeited	(97,750)	6.51
Outstanding at December 31, 2012	<u>681,000</u>	<u>\$ 6.47</u>
Exercisable at December 31, 2012	<u>681,000</u>	<u>\$ 6.47</u>

All stock options outstanding at December 31, 2012 were exercisable and are summarized in the following table:

Options Outstanding				
Range of Exercise Prices	Number Outstanding at December 31, 2012	Weighted Average Remaining Contractual Life	Intrinsic Value of In the Money Outstanding Options at December 31, 2012	Weighted Average Exercise Price
\$ 4.89	20,000	3.97	\$ -	\$ 4.89
\$ 5.72 - \$ 6.00	329,000	2.58	-	5.99
\$ 6.95 - \$ 7.99	332,000	2.53	-	7.03
	<u>681,000</u>	<u>2.60</u>	<u>\$ -</u>	<u>\$ 6.47</u>

Options Exercisable				
Range of Exercise Prices	Number Exercisable at December 31, 2012	Weighted Average Remaining Contractual Life	Intrinsic Value of In the Money Exercisable Options at December 31, 2012	Weighted Average Exercise Price
\$ 4.89	20,000	3.97	\$ -	\$ 4.89
\$ 5.72 - \$ 6.00	329,000	2.58	-	5.99
\$ 6.95 - \$ 7.99	332,000	2.53	-	7.03
	<u>681,000</u>	<u>3.60</u>	<u>\$ -</u>	<u>\$ 6.47</u>

The values of the Company's options were calculated at the date of grant using the Black-Scholes option-pricing model. No options were granted during the years ended December 31, 2012 and 2011 and no options were exercised during the years ended December 31, 2012 or 2011.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income is the combination of accumulated net unrealized gains or losses on investments available-for-sale, which at December 31, 2011 consists of 300,000 shares of LIN unregistered common stock which were issued in connection with LIN's purchase of the Company's WBBDT and WIWB stations - also see Notes 1 "Sale of Stations and Other Events".

The carrying value of the Company's investment in LIN unregistered common stock, has fluctuated and the respective unrealized gains and losses are recorded in accumulated other comprehensive income in the Company's Consolidated Balance Sheets and Statement of Stockholders' Equity. As of December 31, 2012 the component of accumulated other comprehensive income is as follows:

	December 31, 2012	December 31, 2011
Unrealized gain on investment available for sale	\$ ---	\$ 73
Accumulated other comprehensive income	<u>\$ ---</u>	<u>\$ 73</u>

12. SUBSEQUENT EVENTS

On March 29, 2013, the Company completed its sale of its remaining operating asset, *The Daily Buzz* morning news show for \$1.5 million in cash to Mojo Media Brands, LLC.

On April 1, 2013, the Company's Board of Directors approved a special distribution to its shareholders of record as of April 16, 2013 in the form of a cash distribution of \$.08 per common share which amounted to \$1,283,741. The cash distribution was paid on April 24, 2012. Also see Note 1 "*Sale of Stations and Other Events*".

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