ACME COMMUNICATIONS, Inc.

ANNUAL REPORT

2016

TABLE OF CONTENTS

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 how our final liabilities are resolved, the potential discovery of new liabilities and the level of expenses required to wind our Company down.

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.

Liquidation and Dissolution of ACME Communications, Inc.

Pursuant to a Plan of Distribution approved by the Board and the Company's shareholders in 2012, the Company made a final distribution to shareholders on December 30, 2016 of $0.0432 per share and dissolved the Company effective December 31, 2016.

Presentation of Financial Information in this MD&A

The financial information and discussion contained in this MD&A for the years ended December 31, 2016 and 2015 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, 2016 and 2015, which can be found on pages F1-F8 of this Annual Report.

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.

□ *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.acmecommunications.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.

Results of Operations

Year Ended December 31, 2016 compared to Year Ended December 31, 2015

Programming expenses for 2016 were negative $542,000 and related to adjustments to prior year-end accruals.

Depreciation and amortization expense for 2016 and 2015 was $1,000 and $2,000, respectively. As of December 31, 2016, the date the Company was dissolved, all property, plant and equipment had been fully depreciated or amortized.

Corporate expenses for 2016 were $134,000 compared to $80,000 for 2015, an increase of $54,000, or 68%. The increase relates primarily to $68,000 in contractual sale bonuses to certain current and former members of our executive team as a result of the Company's final distribution to its shareholders on December 30, 2016, net of decreases in other corporate expenses due to the continued wind-down of the Company's affairs.

Gain on sale of assets was $213,000 for 2016 related to the reversal of a previous sale-related expense accrual compared to $6,000 related to the recovery of stock related to prior years' executive life insurance policies.

Other income of $65,000 in 2016 which relates primarily to the reversal of a prior accrual compared to $61,000 in 2015, which related to the recovery of stock related to prior years' executive life insurance policies.

Income tax expense for 2016 was $4,000 representing minimum state income and franchise taxes compared to $5,000 in 2015.

Our net income for 2016 was $681,000 compared to a net loss of $20,000 for 2015.

Liquidity and Capital Resources

Net cash used by operating activities was $123,000 for 2016 compared to net cash used of $38,000 for 2015. The increase in cash used by operations relates primarily to $68,000 in contractual sale bonuses paid to certain current and former members of our executive team.

Net cash provided by investing activities for 2015 was $64,000 and consisted of the sale of stock recovered from the life insurer related to prior years' executive life policies. There were no cash flows related to investing activities in 2016.

Net cash used in financing activities for 2016 consisted of $693,000 for our final distribution to shareholders paid on December 30, 2016. Net cash provided by financing activities for 2015 was $290,000, consisting of the return of our deposit by the Federal Communications Commission in January 2015.

As of December 31, 2016, the Company had dissolved and we had no cash, other assets or liabilities.

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.

On December 31, 2016, the Company dissolved and on January 2, 2017, our common stock was removed from 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 who served the Company until December 31, 2016, when the Company was dissolved:

Name	**Age**	**Position**
Jamie Kellner	69	Chairman of the Board
Thomas Allen	64	President and Secretary and Director

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.

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. From July 2010 through February 2012, 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. From February 2012 through September 2013, Mr. Allen also served in the additional duty of Chief Operating Officer of Outdoor Channel Holdings, Inc. Mr. Allen left the Outdoor Channel in September 2013 following the sale of the Company and its delisting from Nasdaq. In December 2015, following the unexpected passing in November 2015 of then President and CEO, Doug Gealy, Mr. Allen assumed the additional role of President.

Transfer Agent and Stock Registrar

Our transfer agent and stock registrar is Computershare at 8742 Lucent Blvd., Suite 225, Highlands Ranch, CO 80129.

Financial Statements

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

INDEX TO UNAUDITED FINANCIAL STATEMENTS

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

	As of December 31, 2016	As of December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ ---	$ 816
Prepaid expenses and other current assets	---	8
Total current assets	---	824
Property and equipment, net	---	1
Total assets	$ ---	$ 825
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ ---	$ ---
Accrued liabilities	---	813
Total current liabilities	---	813
Other liabilities, net of current portion	---	---
Total liabilities	---	813
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value; 10,000,000 shares authorized, no shares issued or outstanding December 31, 2015 and none at December 31, 2016	---	---
Common stock, $0.01 par value; 50,000,000 shares authorized, 16,046,763 shares issued and outstanding at December 31, 2015 and none at December 31, 2016	---	161
Additional paid-in capital	---	128,011
Accumulated deficit	---	(128,160)
Total stockholders' equity	---	12
Total liabilities and stockholders' equity	$ ---	$ 825

See the accompanying notes to the unaudited consolidated financial statements.

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

	Year Ended December 31, 2016	Year Ended December 31, 2015
Net revenues	$ ---	$ ---
Operating expenses:		
Cost of service:		
Programming	(542)	---
Depreciation	1	2
Corporate expenses	134	80
Operating expenses	(407)	82
Operating income (loss)	407	(82)
Gain on sale of assets	213	6
Other income, including interest and investment income	65	61
Income (loss) from discontinuing operations, before income taxes	685	(15)
Income taxes	(4)	(5)
Net income (loss) / Comprehensive income (loss)	$ 681	$ (20)
Net income (loss) per share, basic and diluted (discontinued):	$ 0.04	$ (0.00)
Weighted average basic and diluted common shares outstanding	16,047	16,047

See the accompanying notes to the unaudited consolidated financial statements.

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

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance at December 31, 2015	16,046	$ 161	$ 128,011	$ (128,160)	$ 12
Net income	---	---	---	681	681
Distribution to shareholders	---	---	(693)	---	(693)
Dissolution	(16,046)	(161)	(127,318)	127,479	---
Balance at December 31, 2016	$ ---	$ ---	$ ---	$ ---	$ ---

See the accompanying notes to the unaudited consolidated financial statements.

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

	Year Ended December 31,	
	2016	**2015**
Cash flows from operating activities:		
Net income (loss)	$ 681	$ (20)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1	2
Other income from recovered stock	---	(58)
Gain on sale of marketable securities	---	(6)
Changes in operating assets and liabilities:		
Prepaid expenses, other assets and marketable securities	8	42
Accounts payable and accrued liabilities	(813)	2
Net cash used in operating activities	(123)	(38)
Cash flows from investing activities		
Proceeds received from sale of marketable securities	---	64
Net cash provided by investing activities	---	64
Cash flows from financing activities:		
FCC escrow refund return	---	290
Distribution to shareholders	(693)	---
Net cash provided by (used in) financing activities	(693)	290
Increase (decrease) in cash and cash equivalents	(816)	316
Cash and cash equivalents at beginning of the period	816	500
Cash and cash equivalents at end of the period	$ ---	$ 816
Net cash payments for:		
Interest	$ ---	$ ---
Taxes	$ 4	$ 6

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.

On December 30, 2016, ACME Communications, Inc. (the "Company") paid a final liquidation distribution of $0.0432 per share to its shareholders and dissolved the Company on December 31, 2016.

Sale of Asset and Other Key Events

On December 10, 2012, the Company's Board of Directors and shareholders ratified and approved a formal plan of liquidation.

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.

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 paid on April 24, 2013.

On November 5, 2013, the $150,000 restricted cash established in an escrow account as part of the Daily Buzz sale on March 29, 2013, was released.

On December 10, 2013, the $1.0 million restricted cash established in an escrow account as part of the sale of the Company's New Mexico stations KWBQ, its satellite station KRWB and KASY to Tamer Media and LIN Media on December 10, 2012, was released.

On December 13, 2013, the Company's Board of Directors approved a special distribution to its shareholders of record as of December 26, 2013 in the form of a cash distribution of $.05 per common share. The cash distribution which amounted to approximately $800,000 was paid on December 30, 2013.

On February 4, 2015, the $290,000 restricted cash established in an escrow account for the Federal Communications Commission in connection with the sale of our final television licenses in December 2012 was released.

On December 30, 2016, pursuant to the plan of liquidation approved by the Board and the Company's shareholders in 2012, the Company paid a final distribution to its shareholders of record on December 26, 2016 in the amount of $0.0432 per share and the Company was dissolved on December 31, 2016.

Discontinued Operations

The Company had sold all of its television stations by December 2012 and sold its television production company in March 2013.

In accordance with accounting principles generally accepted in the United States of America, the accompanying Consolidated Statements of Operations and Cash Flows reflect the Company's entire results 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. 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 years ended December 31, 2016 and 2015 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, 2016 and 2015 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, 2015 are derived from the consolidated financial statements included in the Company's 2015 Annual Report.

In accordance with the Financial Accounting Standards Board (the "FASB") *Accounting Standards Codification*™ ("ASC") Topic 855, *Subsequent Events*, or ASC 855, the Company evaluated all events or transactions that occurred after December 31, 2015 through January 3, 2017, which represents the date the Consolidated Financial Statements were available to be issued.

Revenue Recognition

The Company sold its last operating asset, The Daily Buzz, in 2013 and has not generated any revenue since then.

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.

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 cash. Due to the short-term nature of these instruments, the carrying value approximates the fair value. 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 all of the items presented approximate fair values because of the immediate or short-term maturity of these financial instruments.

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, 2016, 20,000 stock options expired reducing our stock options outstanding at December 31, 2016 to zero compared to stock options outstanding at December 31, 2015 of 20,000.

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, 2016 and 2015. There was no stock-based compensation expense during the years ended December 31, 2016 or 2015.

As of December 31, 2016, 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 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.

3. PROPERTY AND EQUIPMENT

At December 31, 2016, all of the Company's property and equipment, consisting solely of computer equipment at the Company's corporate headquarters, had been fully depreciated.

There are no assets subject to a capital lease at December 31, 2016 or 2015.

4. COMMITMENTS AND CONTINGENCIES

Total rental expense under operating rental agreements, all of which are month-to-month, for the years ended December 31, 2016 and 2015 was approximately $0 and $4,000, respectively.

Obligations Under Capital Leases

As of December 31, 2016, the Company had no equipment that was leased under capital equipment facilities.

5. INCOME TAXES

Income tax expense for 2016 and 2015 was $4,000 and $5,000, respectively, representing minimum state income and franchise taxes.

On December 31, 2016, the Company's net operating loss carryforwards were extinguished upon its dissolution on that date.

6. STOCK OPTION COMPENSATION

At December 31, 2016, prior to the Company's dissolution, there were no stock options outstanding or exercisable.

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

As of December 31, 2016, the Company had no component of accumulated other comprehensive income.