ACME COMMUNICATIONS, Inc.

Quarterly Financial Report
(unaudited)

March 31, 2011

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

	March 31, 2011 (unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,276	$ 2,331
Restricted cash	50	50
Accounts receivable, net of allowance for doubtful accounts of $920 and $938 as of March 31, 2011 and December 31, 2010, respectively	5,083	5,963
Current portion of programming rights	1,964	2,092
Prepaid expenses and other current assets	1,197	1,184
Assets held for sale	10,585	11,347
Total current assets	21,155	22,967
Property and equipment, net	2,490	2,786
Programming rights, net of current portion	2,946	3,252
Goodwill, net	11,401	11,401
Broadcast licenses, net	3,359	3,359
Other assets	50	40
Total assets	$ 41,401	$ 43,805
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,127	$ 3,483
Accrued liabilities	5,794	6,409
Current portion of programming rights payable	3,920	4,655
Current portion of obligations under lease	51	51
Income taxes payable	384	346
Liabilities held for sale	6,822	7,501
Total current liabilities	21,098	22,445
Programming rights payable, net of current portion	4,411	4,838
Obligations under lease, net of current portion	640	653
Notes payable secured by trust deed	620	624
Other liabilities	727	529
Deferred income taxes	2,236	1,306
Total liabilities	29,732	30,395
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, 16,772,415 shares issued and 16,046,763 outstanding at March 31, 2011 and December 31, 2010	168	168
Additional paid-in capital	133,004	133,004
Accumulated deficit	(116,503)	(114,762)
Less: Treasury stock, at cost; 725,652 shares	(5,000)	(5,000)
Total stockholders' equity	11,669	13,410
Total liabilities and stockholders' equity	$ 41,401	$ 43,805

See the accompanying notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
Net revenues	$ 3,489	$ 3,313
Operating expenses:		
Cost of service:		
Programming, including program amortization	1,924	1,828
Other costs of service (excluding depreciation and amortization of $247 and $369 for the three months ended March 31, 2011 and 2010, respectively)	359	359
Selling, general and administrative expenses	937	1,069
Depreciation and amortization	247	371
Loss on disposal of assets	23	---
Corporate expenses	363	389
Operating expenses	3,853	4,016
Operating loss	(364)	(703)
Other expenses:		
Interest, net	(112)	(67)
Loss from continuing operations, before income taxes	(476)	(770)
Income tax expense	(969)	(793)
Loss from continuing operations	(1,445)	(1,563)
Discontinued operations:		
Loss from discontinued operations, before income taxes	(296)	(329)
Income tax expense	---	---
Loss from discontinued operations	(296)	(329)
Net loss	$ (1,741)	$ (1,892)
Net loss per share, basic and diluted:		
Continuing operations	$ (0.09)	$ (0.10)
Discontinued operations	(0.02)	(0.02)
Net loss per share	$ (0.11)	$ (0.12)
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 Statement of Stockholders' Equity
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-in	Accumulated	Treasury	Total Stockholders'
	Shares	Amount	Capital	Deficit	Stock	Equity
Balance at December 31, 2010	16,772	$ 168	$ 133,004	$ (114,762)	$ (5,000)	$ 13,410
Net loss	---	---	---	(1,741)	---	(1,741)
Balance at March 31, 2011	16,772	$ 168	$ 133,004	$ (116,503)	$ (5,000)	$ 11,669

See the accompanying notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2011	**2010**
Cash flows from operating activities:		
Net loss	$ (1,741)	$ (1,892)
Add: Loss from discontinued operations, net of income tax	296	329
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for doubtful accounts receivable	20	71
Depreciation and amortization	247	371
Loss on disposal of assets	23	---
Amortization of program rights	598	583
Amortization of prepaid financing costs	41	25
Deferred income tax provision	930	761
Changes in operating assets and liabilities:		
Decrease in accounts receivable	357	61
Increase in prepaid expenses and other current assets	(54)	(81)
Increase in other assets	(10)	---
Increase in accounts payable	41	454
Decrease in accrued liabilities	(557)	(115)
Increase in income taxes payable	38	25
Payments of programming rights payable	(660)	(759)
Increase (decrease) in other liabilities	198	(18)
Net cash used in operating activities	(233)	(185)
Cash flows from investing activities:		
Purchase of property and equipment	---	(16)
Proceeds from sale of property and equipment	25	---
Net cash used in investing activities	25	(16)

See the accompanying notes to the unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2011	**2010**
Cash flows from financing activities:		
Payment of financing costs on credit facility	$ 63	$ 23
Borrowings under revolving credit facility	---	1,000
Repayments of program deferrals	(288)	(31)
Payments on capital lease obligations	(13)	(11)
Net cash provided by (used in) financing activities	(238)	981
Increase (decrease) in net cash from continuing operations	(446)	780
Discontinued operations:		
Net cash provided by operating activities	736	533
Net cash provided by (used in) investing activities	32	(955)
Net cash provided by (used in) financing activities	(377)	652
Net cash provided by discontinued operations	391	230
Increase (decrease) in cash and cash equivalents	(55)	1,010
Cash and cash equivalents at beginning of period	2,331	2,052
Cash and cash equivalents at end of period	$ 2,276	$ 3,062
Cash payments for:		
Interest	$ 49	$ 36
Taxes	$ ---	$ 7
Non-cash transactions:		
Program rights in exchange for program rights payable (continuing operations)	$ 159	$ ---

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"). As of March 31, 2011, ACME Television, through its wholly-owned subsidiaries, owned and operated the following seven commercially-licensed, full-power, broadcast television stations located throughout the United States, including KWBR in Roswell, New Mexico, the Company's satellite station of KWBQ:

Station - Channel	Market	Market Ranking (1)	Network Affiliation (2)
KWBQ - 29 / KWBR - 21	Albuquerque – Santa Fe, NM	46	CW
KASY - 45	Albuquerque – Santa Fe, NM	46	MNT
WBXX - 20	Knoxville, TN	59	CW
WBDT – 26	Dayton, OH	62	CW
WCWF – 21 (3)	Green Bay – Appleton, WI	71	CW
WBUW - 32	Madison, WI	85	CW

(1) based on television households per Nielsen Market Research for the 2010/2011 broadcast season.
(2) "CW" refers to The CW Television Network and "MNT" refers to MyNetworkTV.
(3) formerly WIWB

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.

Discontinued Operations

The Company sold five 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 and sold WBDT (Dayton, OH); WCWF (Green Bay, WI) and WBXX (Knoxville, TN) subsequent to March 31, 2011 – also see Note 13 "*Subsequent Events*". In accordance with U.S. generally accepted accounting principles, the accompanying consolidated statements of operations and cash flows reflect the results of these stations as discontinued operations for all periods presented.

2. BASIS OF PRESENTATION

Basis 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.

Presentation of Interim Financial Statements

The accompanying consolidated financial statements for the three months ended March 31, 2011 and 2010 are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America. 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. These consolidated financial statements do not include all disclosures and footnotes normally included with annual consolidated financial statements, and accordingly, should be read in conjunction with the consolidated financial statements, and the notes thereto, included in the Company's 2010 Annual Report, which can be found on the Company's website at *www.acmecommunications.com.* The results of operations presented in the accompanying consolidated financial statements are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

The accompanying consolidated balance sheet as of December 31, 2010 is derived from the audited consolidated financial statements included in the Company's 2010 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 March 31, 2011 through June 20, 2011, which represents the date the consolidated financial statements were available to be issued.

Recently Adopted Accounting Guidance

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820) - *Improving Disclosures about Fair Value Measurements*" ("ASU 2010-06"). ASU 2010-06 requires new disclosures regarding transfers in and out of the Level 1 and 2 and activity within Level 3 fair value measurements and clarifies existing disclosures of inputs and valuation techniques for Level 2 and 3 fair value measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those years. This update did not have a material impact on the Company's consolidated financial condition or results of operations.

In December 2010, the FASB issued ASU 2010-28, "*Intangible –Goodwill and Other* (Topic 350): When to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts." This update requires an entity to perform all steps in the test for a reporting unit whose carrying value is zero or negative if it is more likely than not (more than 50%) that a goodwill impairment exists based on qualitative factors, resulting in the elimination of an entity's ability to assert that such a reporting unit's goodwill is not impaired and additional testing is not necessary despite the existence of qualitative factors that indicate otherwise. These changes became effective for the Company beginning January 1, 2011. The Company's adoption of this update did not have an impact on the Company's consolidated financial condition or results of operations.

In December 2010, the FASB issued ASU 2010-29, "*Business Combinations (Topic 805): Disclosure of supplementary pro forma information for business combinations*." This update changes the disclosure of pro forma information for business combinations. These changes clarify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. Also, the existing supplemental pro forma disclosures were expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. These changes became effective for the Company beginning January 1, 2011. The Company's adoption of this update did not have an impact on the Company's consolidated financial condition or results of operations.

In April 2010, the FASB issued ASU 2010-13, "*Compensation—Stock Compensation (Topic 718) - Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades (A consensus of the FASB Emerging Issues Task Force)*" ("ASU 2010-13"). ASU 2010-13 clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. This clarification of existing practice is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010, with early application permitted. The Company's adoption of this update did not have an impact on the Company's consolidated financial condition or results of operations.

Critical Accounting Policies and Estimates

The preparation of these consolidated financial statements requires the Company 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, management evaluates its estimates, including those related to program rights, bad debts, intangible assets, including its broadcast licenses, income taxes, and contingencies and litigation. 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. The Company's critical accounting policies are fully disclosed in the Company's 2010 Annual Report. There have been no material changes to these policies during the quarter ended March 31, 2011.

3. DISCONTINUED OPERATIONS

In accordance with U.S. generally accepted accounting principles, the accompanying consolidated statements of operations and cash flows reflect, as discussed in Note 1, the results of the Company's disposed stations as discontinued operations for all periods presented.

Summarized financial information, in thousands, relating to the operations of these stations is as follows:

	For the Three Months Ended March 31,	
	2011	2010
Net revenues	$ 2,529	$ 2,832
Loss from operations, before gain on disposal of assets and income tax expense	(309)	(329)
Gain on disposal of assets	13	---
Income tax expense	---	---
Loss from discontinued operations	$ (296)	$ (329)

Assets held for sale:

	March 31, 2011	December 31, 2010
Programming rights	$ 6,009	$ 6,643
Property and equipment, net	2,144	2,272
Broadcast licenses, net	2,432	2,432
Assets held for sale	$ 10,585	$ 11,347

Liabilities held for sale:

	March 31, 2011	December 31, 2010
Programming liabilities	$ 6,822	$ 7,501
Liabilities held for sale	$ 6,822	$ 7,501

4. LONG-LIVED ASSETS, INCLUDING INTANGIBLES SUBJECT TO AMORTIZATION

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

Programming Rights

Our programming rights are stated, on a gross basis, at the lower of amortized cost or estimated realizable value. Generally, programming 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. We evaluate estimated realizable value of programming rights based on current usage and revenue performance and projected future revenue and usage of such programs. Changes in our programming schedule could impact the estimated realizable value of programming. In addition, estimates of future revenue performance relate to the number of advertising spots we sell and the amount generated from such sales. A decrease in the number of spots sold or the amount for such sales could also impact our estimated realizable value. There was no write-down of programming rights due to impairments for our Continuing Stations during the three-month periods ended March 31, 2011 and 2010.

Property & Equipment

Depreciation and amortization of our 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 our business model or changes in our capital strategy could result in the actual useful lives differing from initial estimates. In those cases where we determine that the useful life of a long-lived asset should be revised, we 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 their carrying value may not be recoverable. There were no impairment charges recorded for our Continuing Stations during the three-month periods ended March 31, 2011 and 2010.

5. 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. There were no impairment charges recorded on the Company's FCC broadcast licenses and goodwill during the three-month periods ended March 31, 2011 and 2010.

6. 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 three-month periods ended March 31, 2011 and 2010.

There was no stock-based compensation expense for the three-month periods ended March 31, 2011 and 2010 and as of March 31, 2011, there is no unrecognized compensation cost related to unvested stock options.

7. 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 No. 740, Income Taxes, 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.

8. NOTES PAYABLE UNDER REVOLVING CREDIT FACILITY

The Company has a revolving credit facility (the "Revolver") which is secured by substantially all of the Company's assets. The loan agreement matures on May 8, 2011 and allows the Company to borrow up to 20% of the most recent appraised STAC ("start-up stations with affiliation agreements sold in a compressed time period") value, subject to a maximum allowed borrowings amount specified in the agreement. Interest under the borrower is LIBOR plus 4.50% for LIBOR loans and prime plus 2.75% for prime-rate based loans, the latter subject to a minimum rate.

At March 31, 2011, the Company had no outstanding borrowings under its Revolver. The available credit was approximately $1.7 million. As of March 31, 2010, the Company had borrowings outstanding under the revolver of approximately $1.0 million.

Costs associated with the procuring and amending the Company's credit facilities, including loan fees and related professional fees, are included in other current assets and are amortized on a straight-line basis, which approximates the effective interest method, over the term, including amended terms, of the facilities

The Company terminated its credit facility on May 6, 2011 in connection with the sale of its WBXX station – see Note 13 "*Subsequent Events"*.

9. NOTES PAYABLE SECURED BY TRUST DEED

On March 26, 2010 the Company purchased its Dayton studio facility 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 $5,038 with all remaining principal and interest due and payable on April 3, 2013. As of March 31, 2011 the Note balance was approximately $640,000.

10. 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 for our Continuing Stations amounted to $328,000 and $298,000, during the three-month periods ended March 31, 2011 and 2010, 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 revenue is recognized when advertisements are broadcast. Merchandise or services received from airtime trade sales are charged to expense or capitalized and expensed when used.

11. 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 our outstanding stock options, warrants and shares issuable pursuant to convertible debt, convertible preferred stock and certain stock incentive plans under the treasury stock method, if including such instruments is dilutive.

During the period ended March 31, 2011, 6,500 stock options expired or were forfeited reducing our stock options outstanding at March 31, 2011 to 787,250 shares compared to stock options outstanding at March 31, 2010 of 987,100. These options were not included in the computation of diluted EPS because an inclusion of such shares would have been anti-dilutive.

12. COMMITMENTS AND CONTINGENCIES

The Company is currently involved in a lawsuit brought by its former national sales representation firm. 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 has recorded a litigation reserve, which is included in accrued liabilities in the accompanying consolidated balance sheet as of March 31, 2011, 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. Also, in connection with the above and subsequent to March 31, 2011, the Company funded approximately $3.2 million in an escrow account as collateral – see Note 13 "*Subsequent Events"* below.

Additional developments in our litigation or other adverse or positive developments or rulings in our litigation could affect our assumptions and, thus, our accrual.

13. SUBSEQUENT EVENTS

On May 6, 2011, the Company completed the sale of WBXX-TV, its station in Knoxville, TN to Lockwood Broadcast Group and on May 20, 2011 the Company completed the sale of its WBDT-TV its Dayton, OH station and WCWF-TV (formerly WIWB-TV) its 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 with the Company to pay approximately 50% of the combined purchase price with its common stock and issued the Company 1,150,000 unregistered shares. Resale of these shares is restricted and the Company expects to sell these shares under Rule 144 promulgated under the Securities Act of 1933, as amended, after a six-month holding period which expires in November 2011. Additionally, upon consummation of the sale of the stations, the Company repaid deferred programming payment obligations for the three stations in the aggregate amount of $2.2 million to four of its program suppliers. The Company also funded from the proceeds approximately $3.2 million into an escrow account in connection with its ongoing litigation with MMT, LLC, its former national advertising sales representative. Net cash proceeds, after transaction costs and the aforementioned program payments and escrow funding, were about $5.4 million.

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. The distribution is payable on July 14, 2011.

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

Forward Looking Statements

This Quarterly 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 selectively sell our stations, an inability of The CW Network or MyNetworkTV to attract and grow viewership, the impact of changes in national and regional economies, including advertising demand, pricing fluctuations in local and national advertising, and volatility in programming costs and other risk factors.

These forward-looking statements speak only as of the date of this Quarterly 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 Quarterly Report. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report might not occur.

Presentation of Financial Information in this MD&A

The financial information and discussion contained in this MD&A for the three-month periods ended March 31, 2011 and 2010 is un-audited and has not been read or reviewed by our independent public accountants. 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 audited Consolidated Financial statements, and notes thereto, as of and for the years ended December 31, 2010 and 2009, included in the Company's 2010 Annual Report, which can be found on the Company's website at *www.acmecommunications.com.*

Overview

This MD&A is provided as a supplement to our un-audited 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.

☐ *Recent Developments and Sales of Stations*. This section provides a general description of our Company's recent developments including the recently completed sales of the Company's WBXX, WBDT and WCWF (formerly WIWB) television stations.

☐ *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 audited 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 on both a continuing and 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 March 31, 2011.

☐ *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 March 31, 2011, our Company, ACME Communications, Inc. and its wholly-owned subsidiaries (together, unless the context otherwise requires, the "Company" or "we"), owned and operated six independently programmed broadcast television stations serving markets reaching 2.2% of the nation's television households: KWBQ-TV and KASY-TV, Albuquerque-Santa Fe, NM; WBXX-TV, Knoxville, TN; WBDT-TV, Dayton, OH; WCWF-TV, Green Bay-Appleton, WI and WBUW-TV, Madison, WI. Five of these stations are network affiliates of The CW Television Network and one station, our second station in the Albuquerque-Santa Fe market, is a network affiliate of MyNetworkTV. In addition, we own KRWB in the Albuquerque-Santa Fe market, which is a satellite of KWBQ-TV. In addition to our television stations, we also produce a three-hour weekday news and lifestyle morning program, The Daily Buzz, which airs on all of our stations and on 163 television stations across the United States. Three of the above stations (WBXX-TV, WBDT-TV and WCWF-TV) were sold in May 2011 – also see "*Recent Developments and Sales of Stations*" below and we currently own and operate the following remaining three continuing stations which are our duopoly in the Albuquerque-Santa Fe marketplace (ranked 46th by Nielsen in terms of television households) and our station in the Madison marketplace (ranked 85th by Nielsen) (collectively, our "Continuing Stations") KWBQ and WBUW are affiliates of The CW Television Network and KASY is an affiliate of MyNetworkTV.

Since we reached a high of eleven television stations in 2002, we have been seeking to monetize shareholder value by the selective sale of our stations. We continue to be sellers rather than buyers of television station assets. Sales of our stations, as discussed below under *Recent Developments and Sales of Stations*, in Knoxville, Dayton and Green Bay (collectively, our "Discontinuing Stations") were completed in May 2011 and in accordance with U.S. generally accepted accounting principles, we have presented the results of these stations as discontinued operations for all periods presented.

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 advertising revenues depend on popular programming that attracts audiences in the demographic groups targeted by advertisers, allowing us to sell advertising time at satisfactory rates. Similar to all commercial television stations, our rates are directly affected by the number of and demographic makeup of our viewing audience, as measured by Nielsen Media Research. Our revenues also depend significantly on factors such as the national and local economy and the level of local competition.

Approximately 65-75% of our revenues are derived from programming that airs between the hours of 5:00 p.m. to midnight. Network prime time, which is a subset of this broad daypart, accounts for 12-15% of our total revenues.

Our two CW stations are ranked fifth, and our MyNetworkTV affiliated stations ranked sixth amongst English-language commercial television stations in their respective markets in terms of either their share of viewers or their share of the market's broadcast television revenue. In periods of lower advertising demand – as has been the case for the past two years - competition from market leaders, generally the ABC, CBS, NBC and FOX affiliated stations, increases as these stations become more aggressive in their pricing to maintain their revenue share. Over the past several years, biennial political spending in the even years has grown substantially. While we do not directly benefit in any significant way from this political advertising since most such advertising generally targets viewers older than our normal viewing audience, we indirectly benefit as the increased demand for political advertising reduces the overall inventory available to non-political advertisers in each market, which consequently increases the overall advertising price for such non-political advertisers.

Similar to the television advertising business in general, our revenues are usually greatest during the fourth quarter of each year, primarily due to increased expenditures by advertisers in anticipation of holiday season consumer spending and an increase in viewership during this period. We generally pay commissions to advertising agencies on local, regional and national advertising and to national sales representatives on national advertising. Our net revenues reflect deductions from gross revenues for commissions payable to advertising agencies and national sales representatives.

Our primary ongoing operating expenses are costs of services, selling, general and administrative expenses, corporate expenses, depreciation and amortization and expenses related to impairments in our broadcast licenses. Costs of services include programming costs, which consist primarily of amortization of programming rights relating to syndicated programs as well as costs associated with our morning news show, *The Daily Buzz*, news costs at our Dayton and Knoxville stations and music rights fees. Other costs of service 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.

The national recession that began in the second half of calendar 2008 had an adverse impact on our industry and our Company during 2009, but advertising demand improved in our continuing markets in 2010 and continued to modestly improve during the first quarter of 2011 as evidenced by a 2% increase compared to prior year period levels in non-political revenues. Second quarter advertising demand has been adversely impacted by the earthquake and tsunami in Japan earlier this year which has impacted production of automobiles and dramatically reduced advertising needs by Japanese importers. Additionally, it appears that the national economy is growing at a very slow rate post recession which seems to be dampening the rebound seen in 2010. Finally, there will not be meaningful amounts of political advertising in 2011.

Sale of Station and Other Events

On March 17, 2010, we entered into a three-year license and consulting agreement, effective April 1, 2010, and an option agreement with Fisher Communications, Inc ("Fisher") for the Company's Daily Buzz unit. Under the license and consulting agreement Fisher will provide oversight of the program's daily operations, license certain of the program's assets to expand the digital content opportunities and provide funding of up to $500,000 for the program's transition to wide screen high-definition broadcast. The option agreement provides Fisher with the ability to acquire a 50% interest in The Daily Buzz, LLC at any time during the term and, if exercised, a further option to acquire the remaining 50% interest.

On May 28, 2010, we and LIN Television ("LIN") entered into a shared services arrangement and related agreements with respect to our stations KWBQ-TV and KASY-TV in Albuquerque-Santa Fe, NM; WBDT-TV in Dayton, OH; and WCWF-TV in Green Bay-Appleton, WI. Under the terms of the agreements, LIN will provide technical, engineering, promotional, administrative and other operational support services from its stations KRQE-TV and KASA-TV in the Albuquerque-Santa Fe market, WDTN-TV in the Dayton market, and WLUK-TV in the Green Bay-Appleton market. In addition, LIN will provide advertising sales services under a joint sales agreement for our stations in the Dayton and Green Bay-Appleton markets. Concurrent with the execution of these agreements, we entered into an option agreement, giving LIN the right to acquire any or all of the stations covered under these agreements.

On August 26, 2010, LIN exercised its option to acquire WCWF-TV and certain assets of WBDT-TV. LIN assigned its rights to acquire the remaining WBDT-TV assets, including the FCC license, to WBDT Television, LLC ("WT"). The aggregate purchase price for both stations was $11.5 million, of which LIN agreed to pay approximately $10.5 million and WBDT Television, LLC agreed to pay approximately $1.0 million. LIN also has the option to fund 50% of its portion of the purchase price with unregistered shares of LIN's common stock. On April 8, 2011 the Federal Communications Commission ("FCC") approved the transfer of its application for the assignment of the stations' FCC licenses to LIN and WT, respectively. The LIN transactions closed on May 20, 2011. Also see Note 13 "*Subsequent Events*".

On January 27, 2011, we entered into a definitive agreement to sell WBXX in Knoxville to the Lockwood Broadcast Group for $5.6 million. The transfer was approved by the FCC on March 21, 2011 and closed in May 2011. Also see Note 13 "*Subsequent Events*".

On May 6, 2011, the Company completed the sale of WBXX-TV, its station in Knoxville, TN to Lockwood Broadcast Group and on May 20, 2011 the Company completed the sale of its WBDT-TV its Dayton, OH station and WCWF-TV (formerly WIWB-TV) its 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 with ACME to pay approximately 50% of the combined purchase price with its common stock and issued the Company 1,150,000 unregistered shares. Resale of these shares is restricted. It is expected that the shares will be sold by the Company under Rule 144 promulgated under the Securities Act of 1933, as amended, after a six-month holding period expires in November 2011. Additionally, upon consummation of the sale of the stations, ACME repaid deferred programming payment obligations for the three stations in the aggregate amount of $2.2 million to four of its program suppliers. ACME also funded from the proceeds approximately $3.2 million into an escrow account in connection with its ongoing litigation with MMT, LLC, its former national advertising sales representative. Net cash proceeds, after transaction costs and the aforementioned program payments and escrow funding, were about $5.4 million.

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

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. The distribution is payable on July 14, 2011.

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 program rights, bad debts, intangible assets, including our broadcast licenses and goodwill, income taxes, and 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

Three Months Ended March 31, 2011 Compared to March 31, 2010

Net revenues from continuing operations for the first quarter of 2011 were $3.5 million, an increase of $176,000 (5%) compared to net revenues of $3.3 million in the first quarter of 2010. Net revenues from our Continuing Stations increased 2% in the first quarter of 2011 compared to the first quarter of 2010, driven mainly by a 2% growth in non-political market revenues.

Programming expenses were $1.9 million for the first quarter of 2011, an increase of $96,000 (5%) compared to $1.8 million in the first quarter of 2010. This increase relates primarily to higher production expenses at the Daily Buzz and higher barter costs during the three months ended March 31, 2011 when compared to the three months ended March 31, 2010.

Other costs of service remained unchanged at $359,000 for the first quarter of 2011 and 2010.

Selling, general and administrative expenses were $937,000 for the first quarter of 2011, a decrease of $132,000 (12%) compared to $1.1 million in the first quarter of 2010. The decrease relates primarily to lower sales commission expenses and reductions in staff levels and compensation and other savings due to our Lin shared services agreement at our Albuquerque-Santa Fe stations.

Depreciation and amortization was $247,000 for the first quarter of 2011, a decrease of $124,000 (33%) compared to $371,000 for the first quarter of 2010. This decrease relates primarily to more assets becoming fully depreciated compared to new assets placed in service over the past year as well as due to the sale of our Madison tower and transmitter building during the fourth quarter of 2010.

There were no impairment charges recorded during the first quarter of 2011 or 2010 related to our FCC broadcast licenses or our goodwill.

Corporate expenses for the first quarter of 2011 was $363,000, a decrease of $26,000 (7%) compared to $389,000 for the first quarter of 2010 principally as a result of lower compensation expense due to corporate management restructures implemented in July 2010, offset by increased professional expenses when compared to the first quarter of 2010.

Income tax expense for the first quarter of 2011 for continuing operations was $969,000, compared to an income tax expense of $793,000 for the first quarter of 2010. The income tax expense for the 2011 quarter was comprised of a $39,000 current tax expense and a $930,000 deferred tax expense related to the amortization of our intangible assets for tax purposes.

Our loss from continuing operations, net of tax expense, for the first quarter of 2011 was $1.4 million compared to $1.6 million for the first quarter of 2010.

Our net loss from discontinued operations for the first quarter of 2011 was $296,000 compared to $329,000 for the first quarter of 2010.

As a result, our net loss for the first quarter of 2011 and 2010 was $1.7 million and $1.9 million, respectively.

Liquidity and Capital Resources

Net cash used in operating activities was $233,000 for the three months ended March 31, 2011, compared to net cash used in of $185,000 for the first three months of 2010. This increase in cash flow usage of $22,000 reflects improved operating results net of a reduction in our combined accounts payable and accrued liabilities.

Net cash provided by investing activities during the first three months of 2011 was $25,000 consisting solely of proceeds received from the sale of property and equipment. Net cash used in investing activities was $16,000, during the first three months of 2010 consisting solely of capital expenditures.

Net cash used in financing activities was $238,000 during the first three months of 2011 compared to net cash provided of $981,000 during the first three months of 2010. The 2011 first quarter consists mostly of repayments of program deferrals, while the 2010 first quarter, consisted primarily of $1.0 million borrowings under our Revolver.

Net cash provided by operating activities in our discontinued operations for the first quarter of 2011 was $736,000 compared to net cash provided of $533,000 during the first three months of 2010 mainly relating to seasonal working capital changes.

Net cash provided by investing activities for our discontinued operations for the first quarter of 2011 was $32,000 compared to net cash used in investing activities for the first quarter of 2010 of $955,000 relating primarily to the purchase of our Dayton office building.

Net cash used in financing activities for our discontinued operations for the first quarter of 2011 was $377,000 compared to net cash provided of $652,000 during the first quarter of 2010 relating primarily to the repayment of program restructure deferral payments. Net cash provided during the first quarter of 2010 relates primarily to the $650,000 in borrowings in connection with our purchase of the Dayton office building.

We have a revolving credit facility (our "Revolver") which is secured by substantially all of our assets and which was scheduled to mature on May 8, 2011. At March 31, 2011 we had no outstanding borrowings under our Revolver and available credit was approximately $1.7 million. On May 6, 2011, in connection with the sale of our WBXX station we terminated our revolving credit facility and we also funded $3.2 million in an escrow account relating to our pending MMT litigation – see "*Sale of Stations"*.

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. The distribution is payable on July 14, 2011.

Even after the above referenced distribution to shareholders, we believe that our cash on hand and the ability to sell restricted shares of LIN stock later in the year will be sufficient to meet our liquidity requirements for the next twelve months.

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.