

**ACME COMMUNICATIONS, Inc.**

**Quarterly Financial Report  
(unaudited)**

**March 31, 2012**

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

	<b>March 31, 2012</b>	<b>December 31, 2011</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,098	\$ 2,118
Restricted cash	---	50
Accounts receivable, net of allowance for doubtful accounts of \$574 and \$642 as of March 31, 2012 and December 31, 2011, respectively	3,649	3,589
Investments available-for-sale	1,215	1,269
Programming rights, current portion	1,578	1,593
Prepaid expenses and other current assets	152	696
Assets held for sale	---	1,618
Total current assets	10,692	10,933
Property and equipment, net	1,323	1,443
Programming rights, net of current portion	1,576	1,964
Goodwill, net	11,401	11,401
Broadcast licenses, net	3,100	3,100
Other assets	28	28
Total assets	\$ 28,120	\$ 28,869
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 888	\$ 1,296
Accrued liabilities	1,442	1,511
Distribution payable to stockholders	4,661	---
Programming rights payable, current portion	2,127	2,107
Obligations under capital lease, current portion	55	54
Other liabilities, current portion	847	613
Income taxes payable	362	362
Liabilities held for sale	---	934
Total current liabilities	10,382	6,877
Programming rights payable, net of current portion	1,923	2,484
Obligations under capital lease, net of current portion	585	599
Other liabilities, net of current portion	97	149
Deferred income taxes	2,038	2,030
Total liabilities	15,025	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, 16,772,415 shares issued and 16,046,763 outstanding at March 31, 2012 and December 31, 2011	168	168
Additional paid-in capital	133,004	133,004
Accumulated deficit	(115,096)	(111,515)
Accumulated other comprehensive income	19	73
Treasury stock, at cost; 725,652 shares	(5,000)	(5,000)
Total stockholders' equity	13,095	16,730
Total liabilities and stockholders' equity	\$ 28,120	\$ 28,869

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

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<u>2012</u>	<u>2011</u>
Net revenues	\$ 3,484	\$ 3,069
Operating expenses:		
Cost of service:		
Programming, including program amortization	1,863	1,746
Other costs of service (excluding depreciation and amortization of \$129 and \$211 for the three months ended March 31, 2012 and 2011, respectively)	227	225
Selling, general and administrative expenses	939	754
Depreciation and amortization	129	211
Loss on disposal of assets	---	23
Corporate expenses	291	363
Operating expenses	<u>3,449</u>	<u>3,322</u>
Operating income (loss)	35	(253)
Other expenses:		
Interest expense	<u>(13)</u>	<u>(112)</u>
Income (loss) from continuing operations, before income taxes	22	(365)
Income tax expense	<u>(8)</u>	<u>(969)</u>
Income (loss) from continuing operations	<u>14</u>	<u>(1,334)</u>
Discontinued operations:		
Income (loss) from discontinued operations, before income taxes	1,066	(407)
Income tax expense	<u>---</u>	<u>---</u>
Income (loss) from discontinued operations	1,066	(407)
Net income (loss)	1,080	(1,741)
Change in fair value on investment available-for-sale	(54)	---
Comprehensive income (loss)	<u>\$ 1,026</u>	<u>\$ (1,741)</u>
Net income (loss) per share, basic and diluted:		
Continuing operations	\$ 0.00	\$ (0.08)
Discontinued operations	0.07	(0.03)
Net income (loss) per share	<u>\$ 0.07</u>	<u>\$ (0.11)</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**  
(Unaudited)  
(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, 2011	16,772	\$ 168	\$ 133,004	\$ (111,515)	\$ 73	\$ (5,000)	\$ 16,730
Change in fair value on investment available-for-sale	---	---	---	---	(54)	---	(54)
Net income	---	---	---	1,080	---	---	1,080
Shareholder distribution	---	---	---	(4,661)	---	---	(4,661)
Balance at March 31, 2012	<u>16,772</u>	<u>\$ 168</u>	<u>\$ 133,004</u>	<u>\$ (115,096)</u>	<u>\$ 19</u>	<u>\$ (5,000)</u>	<u>\$ 13,095</u>

See the accompanying notes to the unaudited consolidated financial statements.

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
Cash flows from operating activities from continuing operations:		
Net income (loss)	\$ 1,080	\$ (1,741)
Add: (Income) loss from discontinued operations, net of income tax	(1,066)	407
(Income) loss from continued operations	14	(1,334)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Provision for doubtful accounts receivable	12	20
Depreciation and amortization	129	211
Amortization of program rights	403	477
Amortization of prepaid financing costs	---	41
Deferred income tax provision	8	930
Changes in operating assets and liabilities:		
Accounts receivable	(190)	397
Prepaid expenses and other current assets	529	(54)
Other assets	---	(10)
Accounts payable	(182)	5
Accrued liabilities	(29)	(674)
Income taxes payable	---	38
Programming rights payable	(467)	(540)
Other liabilities	182	198
Net cash provided by (used in) operating activities from continuing operations	409	(295)
Cash flows from investing activities from continuing operations:		
Purchase of property and equipment	(9)	---
Proceeds from sale of property and equipment	---	25
Proceeds from sale of assets - discontinued operations	1,798	---
Net cash provided by in investing activities from continuing operations	1,789	25

See the accompanying notes to the unaudited consolidated financial statements.

**Consolidated Statements of Cash Flows - Continued**  
**(Unaudited)**  
**(In thousands)**

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
Cash flows from financing activities from continuing operations:		
Payment of financing costs on credit facility	\$       ---	\$       63
Repayments of program deferrals	(73)	(57)
Payments on capital lease obligations	(13)	(13)
Cash restricted as escrow deposits	50	---
Net cash used in financing activities from continuing operations	(36)	(7)
 Increase (decrease) in net cash from continuing operations	 2,162	 (277)
Discontinued operations:		
Net cash provided by (used in) operating activities	(166)	628
Net cash provided by investing activities	---	23
Net cash used in financing activities	(16)	(429)
Net cash provided by (used in) discontinued operations	(182)	222
 Increase (decrease) in cash and cash equivalents	 1,980	 (55)
Cash and cash equivalents at beginning of the period	2,118	2,331
Cash and cash equivalents at end of the period	\$   4,098	\$   2,276
Net cash payments (receipts) for:		
Interest	\$   (222)	\$     104
Taxes	\$   (284)	\$     18
Non-cash transactions:		
Program rights in exchange for program rights payable (continuing operations)	\$       ---	\$   1,027
Shareholder distribution of cash and LIN TV Corp. stock accrual	\$   4,661	\$       ---
	\$   4,661	\$   1,027

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, 2012, ACME Television, through its wholly-owned subsidiaries, owned and operated the following three commercially-licensed, full-power, broadcast television stations located in the Albuquerque-Santa Fe marketplace, including KRWB in Roswell, New Mexico, the Company's satellite station of KWBQ:

<u>Station - Channel</u>	<u>Market</u>	<u>Market Ranking (1)</u>	<u>Network Affiliation (2)</u>
KWBQ - 29 / KRWB - 21	Albuquerque – Santa Fe, NM	45	CW
KASY - 45	Albuquerque – Santa Fe, NM	45	MNT

(1) based on television households per Nielsen Market Research for the 2011/2012 broadcast season.

(2) "CW" refers to The CW Television Network and "MNT" refers to MyNetworkTV.

In addition to the above named television stations, the Company also owns The Daily Buzz, LLC, which produces the weekday morning news and lifestyle television program *The Daily Buzz*, a nationally syndicated program which airs in 179 television markets covering approximately 73% of the country.

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.

***Sale of Station and Other Events***

On February 21, 2012, the Company completed its sale of station WBUW in Madison, WI to Byrne Acquisition Group, LLP (Byrne) for approximately \$1.8 million in cash.

On March 22, 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 \$3,530,000 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.

## ***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) see Note 1 above “*Sale of Station 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 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, 2012 and 2011 are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America. Continuing operations consist of the Company’s television duopoly in Albuquerque-Santa Fe, NM and *The Daily Buzz*, its production entity in Orlando, FL. Also see Note 1 “*Discontinued Operations*” for description of the Company’s discontinued entities. 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 2011 Annual Report, which can be found on the Company’s website at [www.acmecomunications.com](http://www.acmecomunications.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, 2012.

The accompanying consolidated balance sheet as of December 31, 2011 is 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*<sup>TM</sup> (“ASC”) Topic 855, *Subsequent Events*, or ASC 855, the Company evaluated all events or transactions that occurred after March 31, 2012 through August 6, 2012, which represents the date the consolidated financial statements were available to be issued.

### ***Recent Accounting Pronouncements***

In May 2011, the FASB issued Accounting Standards Update (“ASU”) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This update clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This update is effective on a prospective basis for annual and interim reporting periods beginning on or after December 15, 2011, which for the Company is January 1, 2012. Adopting this update did not have a material impact on the Company’s Consolidated Financial Statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220)*. This update (1) eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders’ equity; (2) requires the consecutive presentation of the statement of net income and other comprehensive income; and (3) requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. This update does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income nor does the update affect how earnings per

share is calculated or presented. This update is required to be applied retrospectively and is effective for fiscal years and interim periods within those years beginning after December 15, 2011, which for the Company is January 1, 2012. In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220)*. The amendment for this update is temporary and supersedes certain pending paragraphs in ASU No. 2011-05 to effectively defer only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income until the FASB has time to reconsider these reclassification requirements. Since ASU No. 2011-05 and No. 2011-12 only pertain to enhanced disclosures adopting these updates did not have a material impact on the Company's Consolidated Financial Statements.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment (Topic 350)*, to simplify how entities test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If this is the case, the entity will need to perform a more detailed two-step goodwill impairment test which is used to identify potential goodwill impairments and to measure the amount of goodwill impairment losses to be recognized, if any. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. Adopting this update did not have a material impact on the Company's Consolidated Financial Statements.

### ***Critical Accounting Policies and Estimates***

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 program rights, barter revenues, bad debts, intangible assets, including its broadcast licenses, investments, 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. The Company's critical accounting policies are fully disclosed in the Company's 2011 Annual Report. There have been no material changes to these policies during the quarter ended March 31, 2012.

### **3. DISCONTINUED OPERATIONS**

In accordance with accounting principles generally accepted in the United States, 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,	
	2012	2011
Net revenues	\$ 167	\$ 2,632
Loss from operations, before gain on sale of assets and income tax expense	(48)	(420)
Gain on sale of assets	1,114	13
Income tax expense	---	---
Income (loss) from discontinued operations	\$ 1,066	\$ (407)

Assets held for sale:

	March 31, 2012	December 31, 2011
Programming rights	\$ ---	\$ 943
Property and equipment, net	---	416
Broadcast licenses, net	---	259
Assets held for sale	<u>\$ ---</u>	<u>\$ 1,618</u>

Liabilities held for sale:

	March 31, 2012	December 31, 2011
Programming liabilities	\$ ---	\$ 934
Other liabilities, including real estate promissory note on Ohio building	---	---
Liabilities held for sale	<u>\$ ---</u>	<u>\$ 934</u>

#### 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, 2012 and 2011.

##### *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, 2012 and 2011.

#### 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, 2012 and 2011.

## **6. 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 March 31, 2012, 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. At March 31, 2012 the value of the remaining 300,000 shares was approximately \$1,215,000. The unrealized gain of the investment was approximately \$19,000 at March 31, 2012 and is recorded in accumulated other comprehensive income in the Company's Consolidated Balance Sheets (see Note 13 "*Accumulated Other Comprehensive Income*"). The remaining 300,000 shares of LIN unregistered common stock were distributed on April 10, 2012. Also see Note 14 "*Subsequent Events*".

## **7. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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 March 31, 2012, 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.

*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.

## **8. 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, 2012 and 2011.

There was no stock-based compensation expense for the three-month periods ended March 31, 2012 and 2011 and as of March 31, 2012, there is no unrecognized compensation cost related to unvested stock options.

## **9. 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.

FASB Topic ASC 740, *Income Taxes*, or 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.

## **10. 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 "*Discontinued Operations*". Accordingly, at March 31, 2012, the Company had no outstanding amounts under its Revolver or any other borrowing arrangements..

## **11. 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 \$271,000 and \$276,000, during the three-month periods ended March 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 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.

## **12. 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, 2012, no stock options expired or were forfeited. Our stock options outstanding at March 31, 2012 and 2011 were 778,750 and 787,250 shares respectively. Stock options were not included in the computation of diluted EPS for the periods ended March 31, 2012 and 2011 because an inclusion of such shares would have been anti-dilutive.

## **13. 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 March 31, 2012 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 Note 14 "*Subsequent 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 March 31, 2012 the component of accumulated other comprehensive income is as follows:

	March 31, 2012	December 31, 2011
Unrealized gain on investment available for sale	\$ 19	\$ 73
Ending Balance	<u>\$ 19</u>	<u>\$ 73</u>

#### 14. SUBSEQUENT EVENTS

On March 22, 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 \$3,530,000 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. Also see Note 6 "*Investment Available-For-Sale*".

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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 30, 2012 and 2011 is unaudited 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, 2011 and 2010, included in the Company's 2011 Annual Report, which can be found on the Company's website at [www.acmecommunications.com](http://www.acmecommunications.com).

### **Overview**

This MD&A is provided as a supplement to our 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 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.
- *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](http://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, 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 March 31, 2012, our Company, ACME Communications, Inc. and its wholly-owned subsidiaries (together, unless the context otherwise requires, the "Company" or "we"), owned and operated three independently programmed broadcast television stations serving the Albuquerque-Santa Fe market: KWBQ (an affiliate of The CW Television Network) and KASY (an affiliate of MyNetworkTV), and KRWB, which is a satellite of KWBQ. 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 television stations serving another 179 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 – also see “*Sale of Station and Other Events*” below. All of our previously sold stations 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 March 31, 2012, we have sold all of our stations except those noted above and we continue to be sellers rather than buyers of television station assets. We will continue to market our remaining continuing operating assets in order to maximize the values of those assets. We currently do not have a specific time table as to when our remaining assets will be sold and our operations will be wound up.

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*. At our KWBQ and KASY stations, Albuquerque-Santa Fe, NM we also receive retransmission consent fees. 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 day part, accounts for 12-15% of our total revenues.

KWBQ, our CW affiliated station and KASY, our MyNetworkTV affiliated station, are ranked fifth and sixth, respectively, amongst English-language commercial television stations in the Albuquerque-Santa Fe marketplace in terms of both share of viewers or 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*, 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 we saw a slow recovery during 2011. Advertising demand was also adversely impacted by the earthquake and tsunami in Japan in March 2011 which adversely impacted production of automobiles and dramatically reduced advertising needs by Japanese importers. While advertising demand has been relatively stable over the past two years, it is clear that the recovery is tenuous and advertisers seem to be cautiously gauging advertising needs.

### ***Sale of Station and Other Events***

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 22, 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 \$3,530,000 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 our television stations in Dayton and Green Bay-Appleton. Both, the cash distribution and LIN stock distribution were paid and distributed on April 10, 2012.

### ***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, barter revenues, bad debts, intangible assets, including our broadcast licenses and goodwill, investments, 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, 2012 Compared to March 31, 2011***

Net revenues from continuing operations for the first quarter of 2012 were \$3.5 million, an increase of 14%, or \$415,000, compared to net revenues of \$3.1 million in the first quarter of 2011 mainly due to stronger advertising demand at the Daily Buzz and our television stations.

Programming expenses were \$1.9 million for the first quarter of 2012, an increase of 7%, or \$117,000, compared to \$1.7 million in the first quarter of 2011. The increase relates primarily to higher show production and development costs for our morning news show the *Daily Buzz*, for the three months ended March 31, 2012 when compared to the three months ended March 31, 2011.

Other costs of service remained essentially unchanged at \$227,000 for the first quarter of 2012, compared to \$225,000 for the first quarter of 2011.

Selling, general and administrative expenses were \$939,000 for the first quarter of 2012, an increase of 25%, or \$185,000, compared to \$754,000 in the first quarter of 2011. The increase relates primarily to higher general and administrative expenses at our Albuquerque television stations relating to our estimate of LIN's management performance bonus for the first three months of 2012.

Depreciation and amortization was \$129,000 for the first quarter of 2012, a decrease of 39%, or \$82,000, compared to \$211,000 for the first quarter of 2011. This decrease relates primarily to more assets becoming fully depreciated compared to new assets placed in service over the past year.

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

There was no gain or loss on disposal of our long-lived assets during the first quarter of 2012 compared to a \$23,000 loss on disposal of assets recorded during the first quarter of 2011.

Corporate expenses for the first quarter of 2012 was \$291,000, a decrease of 20%, or \$72,000, compared to \$363,000 for the first quarter of 2011 principally as a result of lower compensation expense due to the corporate management restructures implemented, and lower professional fees when compared to the first quarter of 2011.

Income tax expense for the first quarter of 2012 for continuing operations was \$8,000 compared to an income tax expense of \$969,000 for the first quarter of 2011, with both quarters consisting primarily of deferred tax expense.

Our net income from continuing operations for the first quarter of 2012 was \$14,000 compared to a net loss of \$1.3 million for the first quarter of 2011.

Our net income from discontinued operations for the first quarter of 2012 was \$1.1 million compared to a net loss of \$407,000 for the first quarter of 2011 reflecting mainly the gain of \$1.1 million recorded on the sale of our Madison station on February 21, 2012.

As a result, our net income for the first quarter of 2012 was \$1.1 million compared to a net loss of \$1.7 million, for the first quarter of 2011.

### **Liquidity and Capital Resources**

Net cash provided by operating activities was \$409,000 for the three months ended March 31, 2012, compared to net cash used of \$295,000 for the first three months of 2011. This net increase in cash flow mainly relates 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 seasonal working capital changes.

Net cash provided by investing activities during the first three months of 2012 was \$1.8 million consisting mainly of the cash portion of the sales proceeds relating to the sale of our WBUW station. Net cash provided by investing activities was \$25,000 during the first three months of 2011 consisting of proceeds received for the sale of property and equipment.

Net cash used in financing activities during the first three months of 2012 was \$36,000 compared to net cash used of \$7,000 during the first three months of 2011 consisting mostly of repayments of program deferrals and capital lease obligation payments.

Net cash used in operating activities in our discontinued operations for the first three months of 2012 was \$166,000 compared to net cash provided by of \$628,000 during the first three months of 2011 mainly relates to the accelerated payments of our programming due to the sale of our WBUW station while 2011 primarily represents the operating cash flow of our Dayton station and normal working capital changes.

There was no net cash provided by or used in investing activities during the first three months of 2012 compared to \$23,000 net cash provided during the first three months of 2011 relating to the sale of property and equipment.

Net cash used in financing activities during the first three months of 2012 was \$16,000 compared to net cash used of \$429,000 during the first three months of 2011 consisting mostly of repayments of program deferrals.

As of March 31, 2012, we had cash and cash equivalents of \$4.1 million compared to cash and cash equivalents of \$2.1 million as of December 31, 2011- also see Note 14 “*Subsequent Events*”.

We believe existing cash and cash equivalents, net of the cash distribution we paid in April 2012, will be sufficient to meet our operating cash requirements for at least the next twelve months. We have no debt obligations other than one capital lease. In the event that net cash provided by operating activities and cash on hand are not sufficient to meet future cash requirements, we may be required to reduce planned capital expenses, reduce operations cash uses, sell assets or seek financing.

### ***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.