ACME COMMUNICATIONS, Inc.

Quarterly Financial Report
(unaudited)

June 30, 2010

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ACME Communications, Inc. and Subsidiaries
Consolidated Balance Sheets

(In thousands, except share data)

	June 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,888	$ 2,052
Restricted cash	50	50
Accounts receivable, net of allowance for doubtful accounts of $839 and $898 as of June 30, 2010 and December 31, 2009, respectively	5,123	4,994
Current portion of programming rights	4,934	5,021
Prepaid expenses and other current assets	382	326
Total current assets	13,377	12,443
Property and equipment, net	9,490	9,670
Programming rights, net of current portion	6,557	9,362
Goodwill, net	11,401	11,401
Broadcast licenses, net	5,791	5,791
Other assets	33	79
Total assets	$ 46,649	$ 48,746
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,102	$ 4,411
Accrued liabilities	2,424	2,122
Current portion of programming rights payable	5,578	5,857
Current portion of obligations under lease	50	49
Notes payable under revolving credit facility	1,072	---
Income taxes payable	355	341
Total current liabilities	13,581	12,780
Programming rights payable, net of current portion	10,705	12,339
Obligations under lease, net of current portion	679	704
Notes payable secured by trust deed	648	---
Other liabilities	693	476
Deferred income taxes	1,273	582
Total liabilities	27,579	26,881
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 June 30, 2010 and December 31, 2009, respectively	168	168
Additional paid-in capital	133,004	133,004
Accumulated deficit	(109,102)	(106,307)
Less: Treasury stock, at cost; 725,652 shares	(5,000)	(5,000)
Total stockholders' equity	19,070	21,865
Total liabilities and stockholders' equity	$ 46,649	$ 48,746

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net revenues	$ 6,797	$ 6,850	$ 12,942	$ 13,381
Operating expenses:				
Cost of service:				
Programming, including program amortization	3,460	3,013	6,384	6,044
Other costs of service (excluding depreciation and amortization of $578 and $604 for the three months ended June 30, 2010 and 2009, respectively, and $1,159 and $1,241 for the six months ended June 30, 2010 and 2009, respectivel	913	1,053	1,805	2,075
Selling, general and administrative expenses	2,271	2,646	4,659	5,264
Depreciation and amortization	581	607	1,165	1,247
Corporate expenses	437	506	826	990
Operating expenses	7,662	7,825	14,839	15,620
Operating loss	(865)	(975)	(1,897)	(2,239)
Other expenses:				
Interest, net	(111)	(71)	(178)	(135)
Loss from continuing operations, before income taxes	(976)	(1,046)	(2,075)	(2,374)
Income tax benefit (expense)	73	(69)	(720)	(334)
Loss from continuing operations	(903)	(1,115)	(2,795)	(2,708)
Discontinued operations:				
Loss from discontinued operations, before income taxes	---	(70)	---	(75)
Income tax	---	---	---	---
Loss from discontinued operations	---	(70)	---	(75)
Net loss	$ (903)	$ (1,185)	$ (2,795)	$ (2,783)
Net loss per share, basic and diluted:				
Continuing operations	$ (0.06)	$ (0.07)	$ (0.17)	$ (0.17)
Discontinued operations	---	---	---	---
Net loss per share	$ (0.06)	$ (0.07)	$ (0.17)	$ (0.17)
Weighted average basic and diluted common shares outstandin	16,047	16,047	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, 2009	16,772	$ 168	$ 133,004	$ (106,307)	$ (5,000)	$ 21,865
Net loss	---	---	---	(2,795)	---	(2,795)
Balance at June 30, 2010	16,772	$ 168	$ 133,004	$ (109,102)	$ (5,000)	$ 19,070

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 Six Months Ended June 30,	
	2010	**2009**
Cash flows from operating activities:		
Net loss	$ (2,795)	$ (2,783)
Add: Loss from discontinued operations, net of income tax	---	75
Adjustments to reconcile net loss to net cash provided by operating activities:		
Provision for doubtful accounts receivable	32	78
Depreciation and amortization	1,165	1,247
Amortization of program rights	2,892	2,650
Amortization of prepaid financing costs	60	65
Stock-based compensation	---	7
Deferred income tax	691	303
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivables	(161)	465
Increase in prepaid expenses and other current assets	(56)	(153)
Decrease in other assets	1	68
Increase (decrease) in accounts payable	(309)	1,486
Decrease in accrued liabilities	302	303
Increase (decrease) in income taxes payable	14	(7)
Payments of programming rights payable	(3,098)	(3,195)
Increase (decrease) in other liabilities	217	(46)
Net cash provided by (used in) operating activities	(1,045)	563
Cash flows from investing activities:		
Purchase of property and equipment	(985)	(327)
Net cash used in investing activities	(985)	(327)

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 Six Months Ended June 30,	
	2010	**2009**
Cash flows from financing activities:		
Payment of financing costs on credit facility	$ (15)	$ (215)
Borrowings under revolving credit facility	1,072	257
Borrowings under real-estate mortgage	648	---
Deferrals of program payments	1,185	---
Payments on capital lease obligations	(24)	(23)
Net provided by financing activities	2,866	19
Increase in net cash from continuing operations	836	255
Discontinued operations:		
Net cash used in operating activities	---	(14)
Net cash provided by investing activities	---	---
Net cash used in financing activities	---	---
Net cash used in discontinued operations	---	(14)
Increase in cash and cash equivalents	836	241
Cash and cash equivalents at beginning of period	2,052	676
Cash and cash equivalents at end of period	$ 2,888	$ 917
Cash payments for:		
Interest	$ 115	$ 63
Taxes paid (refunded), net	$ 15	$ 38
Non-cash transactions:		
Program rights in exchange for program rights payable (continuing operations)	$ ---	$ ---

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

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 June 30, 2010, 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	44	CW
KASY - 45	Albuquerque – Santa Fe, NM	44	MNT
WBXX - 20	Knoxville, TN	59	CW
WBDT - 26	Dayton, OH	65	CW
WIWB - 21	Green Bay – Appleton, WI	70	CW
WBUW - 32	Madison, WI	85	CW

(1) based on television households per Nielsen Market Research for the 2009/2010 broadcast season.
(2) "CW" refers to The CW Television Network and "MNT" refers to MyNetworkTV.

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 8K, 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.

On May 28, 2010, the Company entered into a three-year shared services agreement and an option agreement with LIN TV Corp. (the "LIN Transaction") covering the Company's stations KWBQ, KASY, WBDT and WIWB. The LIN Transaction also includes a joint sales agreement for stations WBDT and WIWB. The shared service agreement provides for LIN to advance the Company up to $3.0 million to cover cash flow deficits, if any, for the managed stations. The option agreement provides LIN with certain call rights to purchase the managed stations during the term of the agreement and provides the Company the right to put the stations to LIN, beginning in the 31st month of the term, both the call and put rights are subject to certain terms and conditions. The effective date of the agreements was July 1, 2010.

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. In accordance with U.S. generally accepted accounting principles, the accompanying consolidated statements of operations and cash flows reflect the results of these disposed 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 and six months ended June 30, 2010 and 2009 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 2009 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, 2010.

The accompanying consolidated balance sheet as of December 31, 2009 is derived from the audited consolidated financial statements included in the Company's 2009 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 June 30, 2010 through August 23, 2010, which represents the date the consolidated financial statements were available to be issued.

Recently Issued Accounting Standards

In January 2010, the FASB issued Accounting Standards Update, or ASU, 2010-06, *Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements,* or ASU 2010-06, to require additional disclosures about recurring or nonrecurring fair value measurements, including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The standard also clarifies existing disclosures about the level of disaggregation, valuation techniques and inputs to fair value measurements. The provisions of ASU 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures that are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not expect the future adoption of the provisions for Level 3 reconciliation to have a significant impact on its consolidated financial statements.

In September 2009, the FASB reached a consensus on ASU 2009-13, *Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements*, or ASU 2009-13, and ASU 2009-14, *Software (Topic 985) — Certain Revenue Arrangements That Include Software Elements,* or ASU 2009-14. ASU 2009-13 modifies the requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. ASU 2009-13 eliminates the requirement that all undelivered elements must have either: (a) VSOE or (b) third-party evidence, or TPE, before an entity can recognize the portion of an overall arrangement consideration that is attributable to items that already have been delivered. In the absence of VSOE or TPE of the standalone selling price for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. Overall arrangement consideration will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. The residual method of allocating arrangement consideration has been eliminated. ASU 2009-14 modifies the software revenue recognition guidance to exclude from its scope tangible products that contain both software and non-software

components that function together to deliver a product's essential functionality. These new updates are effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of these ASUs will have on its consolidated financial statements.

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 2009 Annual Report. There have been no material changes to these policies during the quarter ended June 30, 2010.

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 June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Net revenues	$ ---	$ ---	$ ---	$ ---
Loss from operations, before impairment loss and income tax expense	---	(2)	---	(75)
Impairment on property and equipment	---	(68)	---	---
Income tax expense	---	---	---	---
Loss from discontinued operations	$ ---	$ (70)	$ ---	$ (75)

4. 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. For the six months ended June 30, 2010, we recorded write-downs of programming rights due to impairments for our Continuing Stations of $373,000. There was no write-down of programming rights due to impairments for the six months ended June 30, 2009.

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 six-month periods ended June 30, 2010 and 2009.

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 six-month periods ended June 30, 2010 and 2009. There was no stock-based compensation expense for the three months or six months ended June 30, 2010. Stock-based compensation expense for the three months and six months ended June 30, 2009 was approximately $4,000 and $7,000, respectively.

As of June 30, 2010, there was no unrecognized compensation cost related to unvested stock options which does not include the effect of future grants of equity compensation, if any.

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.

The LIN Transaction agreements required approval by the Company's lender which was provided by a consent and amendment to the Company's Revolver on May 28, 2010. The consent and amendment also eliminated the STAC appraisal values of stations WBDT and WIWB from the borrowing base calculation since these stations are being fully integrated into Lin's sales and technical operations and would therefore be difficult for our lender to extract in the case of a default under our credit agreement. Based on the March 1, 2010 STAC appraised values for the stations, excluding WBDT and WIWB, the maximum available borrowings following the LIN Transaction was approximately $1.8 million, before interest and liquidity reserves.

At June 30, 2010, the Company had borrowings outstanding under the Revolver of approximately $1.1 million and available borrowings were approximately $700,000. The note payable is classified as a current liability in the accompanying balance sheet as of June 30, 2010.

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

9. BARTER AND TRADE TRANSACTIONS

Revenue and expenses associated with barter agreements in which broadcast time is exchanged for programming rights are recorded at the estimated average rate of the airtime exchanged, which the Company believes approximates fair value. Barter revenue amounted to $636,000 and $632,000, during the three-month periods ended June 30, 2010 and 2009, respectively. For both the six-month periods ended June 30, 2010 and June 30, 2009, barter revenue amounted to $1.2 million. 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.

10. INCOME (LOSS) PER SHARE

Basic income (loss) per common share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from securities that could share in the earnings of the Company. In calculating diluted EPS, no potential shares of common stock are to be included in the computation when a loss from continuing operations available to common stockholders exists.

Stock options outstanding amounted to 914,100 shares at June 30, 2010 and 2,329,096 at June 30, 2009, respectively and were not included in the computation of diluted EPS because an inclusion of such shares would have been anti-dilutive.

11. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is currently involved in a lawsuit brought by its former national sales representation firm. The suit claims damages of approximately $2.3 million. The Company believes that the suit is without merit, intends to defend against it vigorously and has filed a counter-claim against the plaintiff. However, litigation is inherently uncertain and always difficult to predict and the Company could incur substantial costs and diversion of management resources defending such suit - even if the Company is ultimately successful in the defense of such matter.

Management continues to evaluate the lawsuit discussed above and based on the stage of these proceedings, management is currently unable to reasonably estimate the likelihood of any loss or the amount or range of any potential loss that could result from the litigation. Therefore, no accrual has been established for any potential loss in connection with this lawsuit.

Lin Television

On May 28, 2010, the Company and LIN Television (“LIN”) entered into a shared services arrangement and related agreements with respect to its stations KWBQ-TV and KASY-TV in Albuquerque-Santa Fe, NM; WBDT-TV in Dayton, OH; and WIWB-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 the Company’s stations in the Dayton and Green Bay-Appleton markets. Concurrent with the execution of these agreements, the Company entered into an option agreement, giving LIN the right to acquire any or all of the stations covered under these agreements. In addition, the Company has the right, starting in January 2013, to put any or all of the four stations to LIN at their then fair market value, and subject to a minimum aggregate price of $22.0 million. The exercise of both LIN’s option and the Company’s put rights are subject to regulatory approvals and certain other terms and conditions.

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Management's Discussion and Analysis 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 and six months ended June 30, 2010 and 2009 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, 2009 and 2008, included in the Company's 2009 Annual Report, which can be found on the Company's Web site at *www.acmecommunications.com.*

Overview

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 expect to continue to be sellers rather than buyers of television station assets.

Our six television stations and our satellite station in Albuquerque (collectively, our "Continuing Stations") are regionally diverse and operate in markets that range in size (based on television households, as measured by Nielsen Media Research for the 2009/2010 broadcast season) from the 44th through the 85th largest in the nation. All but one of our stations are affiliates of The CW Television Network. Our third station in the Albuquerque-Santa Fe marketplace is an affiliate of MyNetworkTV.

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 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. In the May 2010 sweeps period, our average composite viewing share for our stations as a group among commercial broadcasters in our markets for the 5:00 p.m. to midnight time period, decreased by 9% compared to the May 2009 sweeps period viewing. Our average composite viewing share for the same time period for the November 2009 sweeps compared to the November 2008 sweeps period decreased 16%. There was no year-over-year comparable sweeps period in February 2010 because there was no February 2009 sweeps period due to the industry's conversion to digital transmission. These recent declines in our viewing shares have had an adverse impact on our share of market revenues

which we believe are due primarily to the CW Network's lower viewing national performance.

Our stations are generally ranked fifth (or in the case of our third station in the Albuquerque-Santa Fe market, ninth) 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. In 2008, we did, however, achieve our highest ever share of political revenues for our group – albeit a minor share compared to our big-network affiliate competitors.

The national recession that began in the third quarter of calendar 2008 has had an adverse impact on our industry and our Company. Advertising revenues in our five television markets, excluding political business, decreased by 15% during 2009 compared to 2008. As has often been the case, advertising expenditure declines generally precede an economic downturn and similarly precede an upturn. During the first half of 2010, advertising revenues, excluding political business, increased an average of 6% in our five television markets. Barring a sudden downturn in the national economy, we expect that advertising revenues for the second half of 2010 will continue to improve over the corresponding period of the prior year.

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, directors and officers insurance and other related corporate overhead.

Effective July 1, 2010, we entered into shared services agreements with Lin Media covering our stations in Albuquerque, Dayton and Green Bay and joint sales agreements for our Dayton and Green Bay stations. We expect that these agreements will allow us to meaningfully reduce operating expenses at those stations, even after incurring severance, transition and charges from Lin for reimbursement of technical facility upgrades to accommodate our master control and uplink functions in Dayton and Green Bay.

Results of Operations

Three Months Ended June 30, 2010 Compared to June 30, 2009

Net revenues from continuing operations for the second quarter of 2010 decreased $53,000, or 1%, to $6.8 million compared to net revenues of $6.9 million in the second quarter of 2009. Net revenues from our Continuing Stations decreased 2% in the second quarter of 2010 compared to the second quarter of 2009, driven mainly by an 8% decrease in average revenue shares at our stations against a 6% increase in non-political advertising expenditures in our five television markets. The Daily Buzz increased their revenues 12% for the three months ended June 30, 2010 compared to the three months ended June 30, 2009 on broader advertiser support.

Programming expenses increased $447,000 or 15%, to $3.5 million in the second quarter of 2010 from $3.0 million in the second quarter of 2009. This increase relates primarily to a $373,000 program impairment write-down in the second quarter of 2010. We did not have any program impairments during the three months ended June 30, 2009.

Other costs of service decreased $140,000, or 13%, to $913,000 in the second quarter of 2010 from $1.1 million in the second quarter of 2009 primarily due to our decision to reduce our discretionary promotion costs in 2010.

Selling, general and administrative expenses for the second quarter of 2010 decreased $375,000 or 14%, to $2.3 million in the second quarter of 2010 from $2.6 million in the second quarter of 2009 primarily due to lower sales commissions and reductions in staff levels and compensation.

Depreciation and amortization decreased $26,000, or 4%, to $581,000 in the second quarter of 2010 from $607,000 for the second quarter of 2009 due to more assets becoming fully depreciated compared to new assets placed in service over the past year.

Corporate expenses for the second quarter of 2010 decreased $69,000, or 14%, to $437,000 compared to $506,000 for the second quarter of 2009, as lower staffing and compensation expense exceeded higher legal fees incurred in connection with our MMT litigation and our Lin Transaction.

Income tax benefit for the second quarter of 2010 for continuing operations was $73,000, compared to an income tax expense of $69,000 for the second quarter of 2009. The income tax benefit for the 2010 quarter was comprised of a $3,000 current and a $70,000 deferred tax benefit which relates primarily to the reversal of deferred tax liabilities. The prior year quarter income tax expense related primarily to the amortization of our intangible assets for tax purposes.

Our loss from continuing operations, net of income tax, for the second quarter of 2010 and 2009 was $903,000 and $1.1 million, respectively.

Our loss from discontinued operations, net of income tax, for the second quarter of 2009 was $70,000 and related to the write-down of our facilities at our WBUI station, which were ultimately sold in the fourth quarter of 2009.

As a result, our net loss for the second quarter of 2010 and 2009 was $903,000 and $1.2 million, respectively.

Six Months Ended June 30, 2010 Compared to June 30, 2009

Net revenues from continuing operations for the six months ended June 30, 2010 decreased $439,000, or 3%, to $12.9 million compared to net revenues of $13.4 million for the six months ended June 30, 2009. Net revenues from our Continuing Stations decreased 5% in the six months ended June 30, 2010 compared to the six months ended June 30, 2009, driven mainly by an 11% lower average market share net of a 6% increase in non-political advertising expenditures in our five television markets. The Daily Buzz increased their revenues 9% for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 on broader advertiser support.

Programming expenses increased $340,000, or 6%, to $6.4 million in the first six months of 2010 from $6.0 million in the first six months of 2009. This increase relates primarily to a second quarter 2010 write-down of program rights noted previously.

Other costs of service decreased $270,000 or 13%, to $1.8 million in the first six months of 2010 from $2.1 million in the first six months of 2009 primarily due to our lower utility costs compared to the prior year period when we were broadcasting in both analog and digital frequencies.

Selling, general and administrative costs for the first six months of 2010 decreased $605,000, or 11%, to $4.7 million compared to $5.3 million in the first six months of 2009 primarily due to lower sales commissions and reductions in staff levels and compensation.

Depreciation and amortization decreased $82,000, or 7%, to $1.2 million for the first six months of 2010 compared to the first six months of 2009 due to more assets becoming fully depreciated compared to new assets placed in service over the past year.

Corporate expenses for the first six months of 2010 decreased $164,000, or 17%, to $826,000 compared to $990,000 for the first six months of 2009 principally as a result of significantly lower compensation expense due to management salary reductions effective October 1, 2009, offset by increased legal expense and severance expense discussed previously.

Income tax expense for the first six months of 2010 for continuing operations was $720,000, compared to income tax expense of $334,000 for the first six months ended June 30, 2009. The income tax expense for the first six months of 2010 is comprised of a $29,000 current tax expense and a $691,000 deferred tax expense related to the amortization of our intangible assets for tax purposes. The income tax expense for the first six months of 2009 is comprised of a $31,000 current tax expense and a $303,000 deferred tax expense.

Our loss from continuing operations for the first six months of 2010 was $2.8 million compared to a loss of $2.7 million for the first six months of 2009.

Our loss from discontinued operations for the first six months of 2009 was $75,000 relating to the maintenance expense and impairment of our studio facilities of our station WBUI which was sold in the fourth quarter of 2009.

As a result, our net loss for the six months ended June 30, 2010 and 2009 was $2.8 million, respectively.

Liquidity and Capital Resources

In early 2009, in an effort to provide the Company with more cash liquidity during the difficult economic and operating climate, management initiated discussions with several of its larger programming suppliers in an effort to amend underlying programming agreements to revise payment due dates. The Company was successful in reaching agreements with these suppliers and the revised terms generally provide payment relief in 2009 and 2010 with those deferrals being caught up in 2011 and beyond. Our final negotiation, retroactive to the fourth quarter of 2008, was executed in July 2010 and a catch-up payment in the amount of approximately $1.0 million was issued to that programming supplier in that same month.

Cash flow used in operating activities was $1.0 million for the six months ended June 30, 2010, compared to cash flow provided by operating activities of $563,000 for the first six months of 2009. This decrease in cash flow of $1.6 million is primarily related to the catch up payment made to our largest programming supplier in April 2010, following the executed restructure agreement, and the fact that during the first half of 2009 we generally suspended program payments to our two largest program suppliers while we were negotiating our restructure agreements.

Cash flow used in investing activities during the first six months of 2010 was $985,000, consisting primarily of the purchase of our Dayton studio facilities, compared to cash flow used in investing activities of $327,000 for the first six months of 2009, which consisted of capital expenditures relating to our final digital broadcast conversion.

Cash flow provided by financing activities was $2.9 million during the first six months of 2010, comprised principally of borrowings under our revolver, program restructure deferrals and seller financing relating to our Dayton station studio facility purchase. Cash flow provided by financing activities during the first six months of 2009 was $19,000 consisting primarily of payments on capital leases.

Cash flow used in our discontinued operations during the first six months of 2009 was $14,000 related to ongoing expenses at our Decatur station studio facilities, which were sold in the fourth quarter of 2009. There was no cash flow activity in 2010 for discontinued operations.

We have a revolving credit facility (our "Revolver") which is secured by substantially all of our assets and which matures on May 8, 2011. At June 30, 2010 we had approximately $1.1 million in outstanding borrowings under our Revolver. Remaining available borrowings at June 30, 2010 were approximately $700,000 and we were in compliance with all the covenants contained in the loan agreement.

Our Lin Transaction agreements became effective July 1, 2010 and we believe we will see meaningful cost reductions going forward for our stations in Albuquerque, Dayton and Green Bay. We also may see new revenue opportunities, although those are more difficult to project. As of June 30, 2010 we have cash balances of approximately $2.9 million. In July 2010 we made a payment of approximately $1.0 million to one of our largest programming suppliers for past programming balances due following the finalization of a deferred program agreement with them. We believe that based on our new Lin related efficiencies and further cost reductions taken at the stations and our corporate office in July 2010, we may not need to further borrow under our Revolver. Our Revolver however, matures on May 11, 2011 and it is not likely that our lender will further extend our maturity date. Accordingly, we will need to either replace our credit agreement or have a liquidity event, such as the sale of one or more of our stations, the Daily Buzz or any of our non-core tower assets in order to repay our current lender. Further, although our amended Revolver contains no financial covenants, it does contain a provision that upon the occurrence of an event or condition that has a material adverse change on our business (a "MAC"), the lenders can refuse to make additional advances under the facility.

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, 2010.

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