ACME COMMUNICATIONS, Inc.

Quarterly Financial Report
(unaudited)

September 30, 2009

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ACME Communications, Inc. and Subsidiaries
Consolidated Balance Sheets

(In thousands, except share data)

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,176	$ 676
Restricted cash	50	50
Accounts receivable, net of allowance for doubtful accounts of $910 and $842 as of September 30, 2009 and December 31, 2008, respectively	5,184	5,396
Current portion of programming rights	5,196	5,077
Prepaid expenses and other current assets	336	217
Assets held for sale	---	268
Total current assets	11,942	11,684
Property and equipment, net	10,383	11,887
Programming rights, net of current portion	10,557	13,009
Goodwill, net	13,839	13,839
Broadcast licenses, net	10,950	10,950
Other assets	102	36
Total assets	$ 57,773	$ 61,405
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,919	$ 2,333
Accrued liabilities	4,675	4,528
Current portion of programming rights payable	6,200	6,246
Current portion of obligations under lease	48	47
Income taxes payable	346	351
Total current liabilities	16,188	13,505
Programming rights payable, net of current portion	12,061	14,591
Obligations under lease, net of current portion	717	753
Notes payable under revolving credit facility	---	---
Other liabilities	498	628
Deferred income taxes	1,968	1,379
Total liabilities	31,432	30,856
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 September 30, 2009 and December 31, 2008, respectively	168	168
Additional paid-in capital	133,001	132,991
Accumulated deficit	(101,828)	(97,610)
Less: Treasury stock, at cost; 725,652 shares	(5,000)	(5,000)
Total stockholders' equity	26,341	30,549
Total liabilities and stockholders' equity	$ 57,773	$ 61,405

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 September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net revenues	$ 6,667	$ 8,482	$ 20,048	$ 25,310
Operating expenses:				
Cost of service:				
Programming, including program amortization	2,973	3,782	9,017	11,450
Other costs of service (excluding depreciation and amortization of $587 and $681 for the three months ended September 30, 2009 and 2008, respectively, and $1,828 and $2,101 for the nine months ended September 30, 2009 and 2008, respectively)	1,006	1,440	3,081	4,009
Selling, general and administrative expenses	2,530	2,880	7,794	8,820
Depreciation and amortization	588	690	1,835	2,122
Impairment of broadcast licenses	---	---	---	11,959
Lease termination costs	---	---	---	653
Corporate expenses	626	578	1,616	1,769
Operating expenses	7,723	9,370	23,343	40,782
Operating loss	(1,056)	(888)	(3,295)	(15,472)
Other expenses:				
Interest, net	(62)	(64)	(197)	(397)
Loss from continuing operations, before income taxes	(1,118)	(952)	(3,492)	(15,869)
Income tax benefit (expense)	(316)	(81)	(650)	1,964
Loss from continuing operations	(1,434)	(1,033)	(4,142)	(13,905)
Discontinued operations (Note 3):				
Income (loss) from discontinued operations, before income taxes	(1)	(11)	(76)	17
Income tax benefit (expense)	---	---	---	---
Income (loss) from discontinued operations	(1)	(11)	(76)	17
Net loss	$ (1,435)	$ (1,044)	$ (4,218)	$ (13,888)
Net income (loss) per share, basic and diluted:				
Continuing operations	$ (0.09)	$ (0.06)	$ (0.26)	$ (0.87)
Discontinued operations	---	---	---	---
Net loss per share	$ (0.09)	$ (0.07)	$ (0.26)	$ (0.87)
Weighted average basic and diluted common shares outstanding	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 Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2008	16,772	$ 168	$ 132,991	$ (97,610)	$ (5,000)	$ 30,549
Stock-based compensation	---	---	10	---	---	10
Net loss	---	---	---	(4,218)	---	(4,218)
Balance at September 30, 2009	16,772	$ 168	$ 133,001	$ (101,828)	$ (5,000)	$ 26,341

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 Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Cash flows from operating activities:		
Net loss	$ (4,218)	$ (13,888)
Less: Income (loss) from discontinued operations, net of income tax	76	(17)
Adjustments to reconcile net loss to net cash		
provided by (used in) operating activities:		
Provision for doubtful accounts receivable	66	166
Depreciation and amortization	1,835	2,122
Impairment of broadcast licenses	---	11,959
Lease termination costs	---	653
Amortization of program rights	3,957	5,724
Amortization of prepaid financing costs	90	280
Stock-based compensation	10	131
Deferred income taxes (benefit)	589	(2,044)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivables	165	(135)
Increase in prepaid expenses and other current assets	(119)	(51)
Increase (decrease) in other assets	65	(14)
Increase (decrease) in accounts payable	2,586	(164)
Increase (decrease) in accrued liabilities	714	(288)
(Decrease) increase in income taxes payable	(5)	98
Payments of programming rights payable	(4,776)	(4,879)
Decrease in other liabilities	(130)	(48)
Net cash provided by (used in) operating activities	905	(395)
Cash flows from investing activities:		
Purchase of property and equipment	(331)	(67)
Proceeds from sale of property and equipment	---	50
Net cash used in investing activities	(331)	(17)

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 Nine Months Ended September 30, 2009	For the Nine Months Ended September 30, 2008
Cash flows from financing activities:		
Payment of financing costs on credit facility	$ (221)	$ (3)
Payments on capital lease obligations	(35)	(35)
Net cash used in financing activities	(256)	(38)
Increase (decrease) in net cash from continuing operations	318	(450)
Discontinued operations:		
Net cash (used in) provided by operating activities	(10)	91
Net cash provided by investing activities	192	---
Net cash used in financing activities	---	---
Net cash provided by discontinued operations	182	91
Increase (decrease) in cash and cash equivalents	500	(359)
Cash and cash equivalents at beginning of period	676	891
Cash and cash equivalents at end of period	$ 1,176	$ 532
Cash payments for:		
Interest	$ 101	$ 123
Taxes	$ 66	$ 17
Non-cash transactions:		
Program rights in exchange for program rights payable (continuing operations)	$ 1,624	$ 4,978

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 September 30, 2009, 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.

Discontinued Operations

On February 16, 2007, the Company completed the sale of station WTVK, serving the Ft. Myers – Naples, Florida marketplace, to Sun Broadcasting, Inc. On October 25, 2007, the Company completed the sale of station WBUI, serving the Champagne-Springfield-Decatur marketplace, to GoCom Media of Illinois, LLC. In accordance with U.S. generally accepted accounting principles, the accompanying consolidated statements of operations and cash flows reflect the results of stations WTVK and WBUI 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 nine months ended September 30, 2009 and 2008 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 2008 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, 2009.

The accompanying consolidated balance sheet as of December 31, 2008 is derived from the audited consolidated financial statements included in the Company's 2008 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 September 30, 2009 through the date of this report, which represents the date the consolidated financial statements were issued. During this period the Company did not have any material recognizable subsequent events.

New Accounting Pronouncements

Newly Adopted Accounting Standards

In July 2009, the FASB issued ASC Topic 105, *Generally Accepted Accounting Principles*, or ASC 105, (formerly FASB Statement No. 168 *FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles).* ASC 105 establishes the *FASB Accounting Standards Codification™* (Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. ASC 105 and the Codification were effective for financial statements issued for interim and annual periods ending after September 15, 2009. As ASC 105 is not intended to change or alter existing GAAP, the adoption on July 1, 2009, did not have a material impact on the Company's consolidated financial statements. The Company adjusted historical GAAP references in this quarterly report to reflect accounting guidance references included in the Codification.

Recently Issued Accounting Standards (Not codified yet)

In June 2009, the FASB issued the following new accounting standards, which remain authoritative until such time that each is integrated into the Codification:

- SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140*, or SFAS 166; and
- SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, or SFAS 167;

SFAS 166 prescribes the information that a reporting entity must provide in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. Specifically, among other aspects, SFAS 166 amends Statement of Financial Standard No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, or SFAS 140, by removing the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities. It also modifies the financial-components approach used in SFAS 140. SFAS 166 is effective for transfer of financial assets occurring on or after January 1, 2010. The Company has not determined the effect that the adoption of SFAS 166 will have on its consolidated financial statements but the effect will generally be limited to future transactions.

SFAS 167 amends FASB Interpretation No. 46, *Consolidation of Variable Interest Entities (revised December 2003) — an interpretation of ARB No. 51*, or FIN 46(R), to require an enterprise to determine whether it's variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. SFAS 167 also amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 is effective for all variable interest entities and relationships with variable interest entities existing as of January 1, 2010. The Company has not determined the effect that the adoption of SFAS 167 will have on its financial position or results of operations.

Critical Accounting Policies and Estimates

The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to program rights, bad debts, intangible assets, including our goodwill and broadcast licenses, income taxes, and contingencies and litigation. 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. Our critical accounting policies are fully disclosed in our 2008 Annual Report. There have been no material changes to these policies during the quarter ended September 30, 2009.

3. DISCONTINUED OPERATIONS

As described in Note (1), the Company's stations WTVK and WBUI, both sold in 2007, have been treated as discontinued operations.

As of September 30, 2009 there were no assets held for sale as the studio and land of our station WBUI was sold on September 28, 2009. At December 31, 2008, assets held for sale was $268,000.

Summarized operating results of our discontinued operations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net revenues	$ ---	$ ---	$ ---	$ ---
Income (loss) from operations, before impairment loss and income tax benefit (expense)	6	(11)	(1)	17
Impairment on property and equipment	(7)	---	(75)	---
Income tax benefit (expense)	---	---	---	---
Income (loss) from discontinued operations	$ (1)	$ (11)	$ (76)	$ 17

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. During the nine months ended September 30, 2009 we did not record any write-down of programming rights. During the nine months ended September 30, 2008, we recorded write-downs of programming rights due to impairments for our Continuing Stations of $1,127,000.

5. GOODWILL, INDEFINITE LIFE INTANGIBLE AND LONG-LIVED ASSETS

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. The annual testing date is December 31.

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. Goodwill and indefinite life intangible assets are not amortized but are tested annually for impairment. The annual 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. The Company has determined that there was no indication of impairment to its goodwill as of September 30, 2009.

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 during the nine months ended September 30, 2009. The Company performed its annual test for goodwill impairment as of December 31, 2008. The Company has determined that there was no indication of impairment as of September 30, 2009. The Company recorded a non-cash impairment charge of $11,959,000 for its FCC broadcast licenses during the nine months ended September 30, 2008. There was no impairment of goodwill at September 30, 2008.

Long-Lived Assets

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

Management periodically reviews the carrying value of long-lived assets to determine whether or not impairment to such value has occurred and has determined that there was no impairment to its long-lived assets as of September 30, 2009. In addition to the recoverability assessment, the Company routinely reviews the remaining estimated lives of its long-lived assets. Any reduction in the useful life assumption will result in increased depreciation and amortization expense in the period when such determinations are made, as well as in subsequent periods.

6. LEASE TERMINATION COSTS

In June 2008, the Company decided to cease using a back-up transmission facility for its Albuquerque-Santa Fe station and concurrently sold its related broadcast transmission line to an independent third party. In connection with that decision, the Company recorded a charge of approximately $653,000, representing the present value of the projected remaining lease obligation for that facility which is included in “lease termination costs” in the accompanying consolidated statements of operations and the obligation is included in accrued liabilities in the accompanying consolidated balance sheet. No such charge was recorded during the nine months ended September 30, 2009.

7. FAIR VALUE MEASUREMENTS

The Company adopted FASB ASC Topic 820 *Fair Value Measurements and Disclosures,* or ASC 820 prospectively effective January 1, 2008, with respect to fair value measurements of (a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company’s consolidated financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. The Company adopted the remaining aspects of ASC 820 relative to nonfinancial assets and liabilities that are measured at fair value, but are recognized and disclosed at fair value on a nonrecurring basis, prospectively effective January 1, 2009. ASC 820 prioritizes the inputs used in measuring fair value into the following hierarchy:

- Level 1 — Valuations based on quoted prices in active markets for identical assets or liabilities that the entity
- Level 2 — Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
- Level 3 — Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair values of the Company’s cash and cash equivalents, restricted cash, trade accounts receivable, prepaid expenses and other current assets, trade accounts payable, accrued expenses, and income taxes payable approximate the carrying values due to the relatively short maturities of these instruments. The fair values of the Company’s long-term liabilities, if recalculated based on current interest rates, would not significantly differ from the recorded amounts.

Certain assets are measured at fair value on a non-recurring 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, and long-lived assets that are written down to fair value when they are held for sale or determined to be impaired.

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 nine months ended September 30, 2009 and 2008. Total stock-based compensation expense was approximately $10,000 and $131,000, for the nine months ended September 30, 2009 and 2008, respectively.

As of September 30, 2009, there was approximately $3,000 of total unrecognized compensation cost related to unvested stock options which does not include the effect of future grants of equity compensation, if any. The Company expects to recognize the full amount in its fourth quarter ending December 31, 2009.

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.

10. 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 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. In May 2008, the lender agreed to the Company's request to reduce the maximum allowed borrowings from $17.7 million to $6.0 million.

On March 25, 2009, the Company entered into an amendment with its lender. The key elements of the amendment were (a) to amend the maturity date from May 8, 2009 to May 8, 2011, (b) to increase the interest rate margins from 2.50% to 4.50% for LIBOR-based loans and from 0.75% to 2.75% on prime rate-based loans and (c) to change the definition of prime rate to incorporate new minimum rates.

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.

At September 30, 2009, the Company had no outstanding borrowings under its Revolver and available credit was approximately $4.4 million and was in compliance with all the covenants contained in the loan agreement. As of September 30, 2008, the Company had no outstanding borrowings under its Revolver.

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 amounted to $611,000 and $794,000, during the three months ended September 30, 2009 and 2008, respectively, and $1,833,000 and $2,343,000 for the nine months ended September 30, 2009 and 2008, 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.

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.

During the three months ended September 30, 2009, 1,289,996 stock options expired reducing our stock options outstanding at September 30, 2009 to 1,039,100 shares compared to stock options outstanding at September 30, 2008 of 2,350,446 Stock options were not included in the computation of diluted EPS because an inclusion of such shares would have been anti-dilutive.

13. COMMITMENTS AND CONTINGENCIES

The Company is currently involved in a lawsuit brought by its former national sales representation firm and its sister company. The suit claims damages of approximately $2.3 million. The Company believes that the suit is without merit and intends to defend against it vigorously; however, 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. Litigation is inherently uncertain and always difficult to predict. Therefore, as of September 30, 2009 no accrual has been made, except for incurred legal defense fees, for the potential outcome of the above referenced matter.

14. SUBSEQUENT EVENT

The Company has evaluated all events and transactions subsequent to September 30, 2009 through November 10, 2009.

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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 nine months ended September 30, 2009 and 2008 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, 2008 and 2007, included in the Company's 2008 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 nine 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 2009 sweeps period (the most recent major sweeps period), our stations' weighted average composite share of in-market viewing for the 5:00 p.m. to midnight time period decreased by 2% compared to the May 2008 sweeps period viewing.

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 half of calendar 2008 has had, and continues to have, an adverse impact on our industry and our Company. Total broadcast television advertising revenues in our markets, excluding political business, declined 17% during the third quarter of 2009 compared to the third quarter of 2008. This represented the fourth quarter of moderating marketplace declines as the fourth quarter 2008 through the second quarter 2009 declined over the previous year's corresponding quarter by 24%, 22% and 20%, respectively. The year-to-date decline in market revenues, excluding political advertising, was 20%. We expect that fourth quarter 2009 market revenues will decline, but more moderately than in the third quarter of 2009.

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.

Results of Operations

Three Months Ended September 30, 2009 Compared to September 30, 2008

Net revenues from continuing operations for the third quarter of 2009 decreased $1.8 million, or 21%, to $6.7 million compared to net revenues of $8.5 million in the third quarter of 2008. Net revenues from our Continuing Stations decreased 24% in the third quarter of 2009 compared to the third quarter of 2008, driven mainly by sharply lower advertising demand, reflected by a 17% decline in non-political advertising expenditures in our five television markets and a 7% decrease in our market share of those revenues.

Programming expenses decreased $809,000 or 21%, to $3.0 million in the third quarter of 2009 from $3.8 million in the third quarter of 2008. This decrease relates primarily to lower programming amortization and lower barter costs and lower program impairment write-downs during the three months ended September 30, 2009 when compared to the three months ended September 30, 2008.

Other costs of service decreased $434,000, or 30%, to $1.0 million in the third quarter of 2009 from $1.4 million in the third quarter of 2008 primarily due to our decision to reduce our discretionary promotion costs in 2009.

Selling, general and administrative expenses for the third quarter of 2009 decreased $350,000 or 12%, to $2.5 million in the third quarter of 2009 from $2.9 million in the third quarter of 2008 primarily due to lower sales commissions, lower sales incentive trip expense, lower incentive compensation expenses and reductions in staff levels and compensation.

Depreciation and amortization decreased $102,000, or 15%, to $588,000 in the third quarter of 2009 from $690,000 for the third quarter of 2008 due to more assets becoming fully depreciated compared to new assets placed in service over the past year.

There were no impairment charges recorded on our FCC broadcast licenses during the third quarter of 2009 and 2008.

Corporate expenses for the third quarter of 2009 increased $48,000, or 8%, to $626,000 compared to $578,000 for the third quarter of 2008, principally as a result of higher legal fees incurred in connection with our litigation with one of our non-programming vendors and severance costs related to the revision of employment arrangements for our corporate management team. Exclusive of such legal and severance expense, corporate expenses for the third quarter of 2009 would have decreased $120,000, or 21% to $458,000 reflecting mainly lower compensation expense due to management salary reductions effective January 1, 2009.

Income tax expense for the third quarter of 2009 for continuing operations was $316,000, compared to an income tax expense of $81,000 for the third quarter of 2008. The income tax expense for the 2009 quarter was comprised of a $30,000 current tax expense and a $286,000 deferred tax expense related to the amortization of our intangible assets for tax purposes. The income tax expense for the 2008 quarter relates primarily to the deferred tax resulting from the higher tax deductions compared to book deductions relating to intangible assets and to $2,000 in current tax expense.

Our loss from continuing operations, net of tax expense, for the third quarter of 2009 and 2008 was $1.4 million and $1.0 million, respectively.

Our loss from discontinued operations, net of income tax, for the third quarter of 2009 was $1,000 compared to $11,000 for the third quarter of 2008, primarily related to the sale of our studio building and land of our station WBUI during the three months ended September 30, 2009. There was no income tax expense for discontinued operations for the three months ended September 30, 2009 and 2008.

As a result, our net loss for the third quarter of 2009 and 2008 was $1.4 million and $1.0 million, respectively.

Nine Months Ended September 30, 2009 Compared to September 30, 2008

Net revenues from continuing operations for the nine months ended September 30, 2009 decreased $5.3 million, or 21%, to $20.0 million compared to net revenues of $25.3 million for the nine months ended September 30, 2008. Net revenues from our Continuing Stations decreased 23% in the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008, driven mainly by sharply lower advertising demand, reflected by a 21% decline in non-political advertising expenditures in our five television markets.

Programming expenses decreased $2.4 million, or 21%, to $9.0 million in the first nine months of 2009 from $11.5 million in the first nine months of 2008. This decrease relates primarily to lower programming amortization, lower barter costs and lower write-downs of program rights during the nine months ended September 30, 2009 when compared to the nine months ended September 30, 2008.

Other costs of service decreased $928,000 or 23%, to $3.1 million in the first nine months of 2009 from $4.0 million in the first nine months of 2008 primarily due to our decision to reduce our promotion costs in 2009.

Selling, general and administrative costs for the first nine months of 2009 decreased $1.0 million, or 12%, to $7.8 million compared to $8.8 million in the first nine months of 2008 primarily due to lower sales commissions, lower sales incentive trip expense, lower incentive compensation expense, and reductions in staff levels and compensation.

Depreciation and amortization decreased $287,000, or 14%, to $1.8 million for the first nine months of 2009 from $2.1 million for the first nine months of 2008 due to more assets becoming fully depreciated compared to new assets placed in service over the past year.

There were no impairment charges recorded on our FCC broadcast licenses during the nine months ended September 30, 2009. We recorded an impairment charge relating to our FCC broadcast licenses of approximately $12.0 million in the first nine months of 2008 as a result of our review of intangible assets and our determination that these assets had been impaired.

We recorded lease termination costs of $653,000 in the first nine months of 2008 as a result of the abandonment of our backup tower facility in New Mexico. There were no such charges during the same period for 2009.

Corporate expenses for the first nine months of 2009 decreased $153,000, or 9%, to $1.6 million compared to $1.8 million for the first nine months of 2008 principally as a result of lower compensation expense due to management salary reductions effective January 1, 2009, offset by increased legal expense and severance expense discussed previously.

Income tax expense for the first nine months of 2009 for continuing operations was $650,000, compared to an income tax benefit of $2.0 million for the nine months ended September 30, 2008. The income tax expense for the first nine months of 2009 is comprised of a $61,000 current tax expense and a $589,000 deferred tax expense related to the amortization of our intangible assets for tax purposes. The income tax benefit for the first nine months of 2008 is comprised of a $80,000 current tax expense and a $2.0 million deferred tax benefit, which relates primarily to reversal of deferred tax liabilities resulting from the impairment of intangibles recorded during the third quarter of 2008.

Our loss from continuing operations for the first nine months of 2009 was $4.1 million compared to a loss of $13.9 million for the for the first nine months of 2008 primarily due to the impairment charge relating to our FCC broadcast licenses, the program write-down and lease termination expense, net of the decrease in corporate expenses as discussed above.

Our loss from discontinued operations for the first nine months of 2009 was $76,000 compared to income of $17,000 for the first nine months of 2008, primarily due to additional impairment charges taken and a net $7,000 loss relating to the sale of our studio building of our station WBUI during the nine months ended September 30, 2009. There was no income tax expense for discontinued operations for the first nine months of 2009 and 2008.

As a result, our net loss for the nine months ended September 30, 2009 and 2008 was $4.2 million and $13.9 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. Written agreements with our two largest program suppliers have not yet been obtained and payments to those two suppliers have been suspended pending the completion and finalization of those documents.

Cash flow provided by operating activities was $905,000 for the nine months ended September 30, 2009, compared to cash flow used by operating activities of $395,000 for the first nine months of 2008. This increase in cash flow of $1.3 million is primarily related to the suspended program payments to our two largest program suppliers referenced above. We expect these agreements will ultimately be finalized and the reduced payments caught up.

Cash flow used in investing activities during the first nine months of 2009 was $331,000, consisting solely of capital expenditures mainly relating to the digital conversion readiness, compared to cash flow used in investing activities of $17,000 for the first nine months of 2008.

Cash flow used in financing activities was $256,000 during the first nine months of 2009 compared to cash flow used of $38,000 during the first nine months of 2008, consisting mainly of prepaid financing costs, including our $200,000 Revolver amendment fee in March 2009, and payments on capital leases.

Cash flow provided by our discontinued operations during the first nine months of 2009 was $182,000 compared to cash flow provided by operating activities during the first nine months of 2008 of $91,000. This increase in cash flow relates primarily to the September 2009 sale of the land and studio building of station WBUI, which we sold in October 2007.

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 September 30, 2009 we had no outstanding borrowings under our Revolver and available credit was approximately $4.4 million and we were in compliance with all the covenants contained in the loan agreement.

Given the sharp national economic recession and the adverse impact on advertising demand, and the anticipated catch-up of payments to our two largest program suppliers we likely will need to borrow under our Revolver during the last three months of 2009 to help fund working capital needs and capital expenditures, the latter of which are estimated to be approximately $75,000 for that three-month period. 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.

The Company’s continued focus is to do everything prudently possible to reduce costs and cash usage during these unprecedented difficult economic times We believe that our payment restructure arrangements with certain of our key program suppliers mentioned above and the additional availability under our Revolver will provide us with enough liquidity to weather the current recession, even if it continues into well into 2010 and that our cash and cash equivalents on hand at September 30, 2009 and available borrowings under our Revolver, will be sufficient to meet our working capital and capital expenditure requirements in the ordinary course of business for the balance of fiscal 2009.

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.