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ACME COMMUNICATIONS INC  
Form 10-K405  
March 30, 2001

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-K  
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[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 333-84191

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ACME COMMUNICATIONS, INC.  
(EXACT NAME OF REGISTRANTS AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

33-0866283  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

2101 E. FOURTH STREET, SUITE 202 A  
SANTA ANA, CALIFORNIA, 92705  
(714) 245-9499  
(ADDRESS AND TELEPHONE NUMBER OF PRINCIPAL EXECUTIVE OFFICES)

-----  
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, par value \$.01 per share	Nasdaq National Market

Indicate by check mark whether the registrant (1) has filed all reports

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required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed on the basis of \$9.56 per share, which was the last sale price on the Nasdaq on March 26, 2001, was \$160,130,000.

As of March 26, 2001, there were 16,750,000 shares of registrant's common stock outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be filed pursuant to Regulation 14A relating to the 2001 Annual Meeting of Stockholders are incorporated by reference in Part III.

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ACME COMMUNICATIONS, INC.

ANNUAL REPORT ON FORM 10-K

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PART III

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\* Items incorporated by reference to our Proxy Statement to be filed pursuant to Regulation 14A relating to the 2001 Annual Meeting of Stockholders.

PART I

ITEM 1. BUSINESS

ACME Communications, Inc. (the "Company" or "we") currently owns and operates ten broadcast television stations in medium-sized markets across the United States. Nine of our stations are network affiliates of The WB Network, making us the third largest WB Network affiliated station group in the country. Our television stations broadcast in markets that cover in aggregate approximately 5.4% of the total U.S. television households. We also own the rights to acquire construction permits to build four other stations -- three to be new WB Network affiliates in Lexington, KY, Richmond, VA and Flint - Saginaw - Bay Cities, MI and the fourth to be a second station, operated as an independent, in Portland, OR. The acquisition of these construction permits is dependent on the Federal Communications Commission approving the underlying applications, and then our agreements to acquire them from these applicants. Mr. Kellner, our Chairman and Chief Executive Officer, is also a founder, Chief Executive Officer and partner of The WB Network, and was President of Fox Broadcasting Company from its inception in 1986 through 1993. In March 2001, Mr. Kellner also became Chairman and Chief Executive Officer of AOL Time Warner's Television Networks division.

Since our formation in 1997, we have focused primarily on acquiring independently-owned stations, under-performing stations and construction permits for new stations in markets that we believe have the growth potential and demographic profile to support a successful WB Network affiliate. We believe that medium-sized markets provide advantages such as fewer competitors and lower operating costs compared to large markets. Our strategy is to capitalize on these advantages and to grow our revenues and cash flow with an emphasized focus on local sales. Since we centralize many of our stations' administrative functions and primarily provide entertainment programming, our station general managers are able to focus on increasing sales and improving operating margins. Additionally, since many of the stations we own are in markets where the Federal Communications Commission allows dual ownership of broadcast television stations ("duopoly"), our long-term strategy also includes acquiring such second stations.

Like The WB Network, we target our programming at younger audiences, in particular, young adults, teens and kids. We believe that these younger

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audiences are a growing and increasingly important demographic target for advertisers, and that our affiliation with The WB Network affords us a significant competitive advantage over other network affiliated television broadcasters in attracting these younger audiences. Since its launch in 1995 and through the 1999/2000 season, The WB Network was the only English-language broadcast network in the United States to increase its audience share in these key target demographic groups. To build and retain our audience share during non-network hours, we also acquire the broadcast rights to popular syndicated programming that we believe complements The WB Network programming. In addition, we broadcast local programming such as news in St. Louis, local weather updates and local and regional sports programming in selected markets. We believe this programming enhances our ability to sell advertising time to local and regional advertisers and increase audience awareness of our newly launched stations.

### PROGRAMMING

Our programming includes:

- The WB Network prime time programming (at nine of our ten stations);
- Kids' WB! (at nine of our ten stations);
- syndicated programming; and
- local programming.

Prime Time Programming. In prime time, The WB Network is currently ranked number one among female teens and, based on the average age of their viewers, is the youngest broadcast network today. Prime time programming includes: 7th Heaven, Buffy the Vampire Slayer, Dawson's Creek, Charmed, Felicity,

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Sabrina: The Teenage Witch, Popstars and Popular. When The WB Network began broadcasting in 1995, it provided two hours of prime time programming per week. In the 2000/2001 season, The WB Network is providing 13 hours of prime time programming Sunday through Friday.

Kids' WB! Programming. The WB Network launched Kids' WB! in September 1995 with three hours of programming on Saturdays, and currently provides 19 hours of kids' programming Monday through Saturday. Kids' WB! programming includes Pokemon, Batman Beyond, Men in Black, Max Steel and Jackie Chan Adventures.

Syndicated Programming. In addition to The WB Network programming, our stations air syndicated programs. Generally, our most profitable programming time periods are those immediately before and after The WB Network programming. Consequently, during these time periods, we air programs that are targeted to the audiences similar in demographics as those that watch The WB Network prime time programs. These syndicated programs include Friends, Sabrina: The Teenage Witch, Star Trek: Next Generation, Drew Carey, Spin City, Judge Judy, Seinfeld and Star Trek: Voyager. We have secured future broadcast rights for certain of our stations to King of the Hill, That 70s Show, Dharma & Greg, Everybody Loves Raymond and other shows. We have multi-year contracts to air most of our syndicated programming.

Local Programming. Each of our stations also airs programming of local interest, which we believe creates immediate viewership at our start-up stations, increases local awareness of our stations and expands our advertiser base. At KWBP, our station in Portland, we air weather updates throughout each evening, a format we intend to replicate at our other stations. At many of our stations, we acquire the broadcast rights and air certain regional and local

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sporting events including games of the St. Louis Cardinals and the St. Louis Blues at KPLR, the Seattle Mariners and the University of Oregon Ducks at KWBP, and the Colorado Rockies at KUWB. In addition, KPLR airs a nightly 30-minute local newscast.

OUR STATIONS

The following table provides general information concerning our stations:

STATION - CHANNEL MARKETPLACE	TELEVISION HOUSEHOLDS (1)		NOVEMBER 2000 AUDIENCE SHARE (2)			
	MARKET RANKING	NUMBER	PRIME TIME (3)		SIGN-ON TO SIGN-OFF (4)	
			TEENS 12 - 17	ADULTS 18 - 34	ADULTS 18 - 34	HOUSEHOLD
KPLR - 11 St. Louis, MO.....	22	1,121,000	21	11	11	9
KWBP - 32 Portland, OR.....	23	1,017,800	11	10	7	5
KUWB - 30 Salt Lake City, UT.....	36	732,400	8	7	5	4
KWBQ - 19 Albuquerque - Santa Fe, NM.....	50	570,500	3	3	2	2
KASY - 50 Albuquerque - Santa Fe, NM.....	50	570,500	4	6	3	3
WBDT - 26 Dayton, OH.....	56	515,200	11	7	4	2
WBXX - 20 Knoxville, TN.....	63	462,000	13	10	7	3
WIWB - 14 Green Bay - Appleton, WI.....	69	398,500	7	4	3	2
WTVK - 46 Ft. Myers - Naples, FL.....	81	352,200	7	5	4	1
WBUI - 23 Champaign - Springfield - Decatur, IL.....	83	345,400	6	5	3	2

(1) All television stations throughout the United States are grouped into 210 markets that are ranked in size according to the number of households with televisions in the market for the 2000/2001 season.

(2) All share information is from Nielsen Media Research.

(3) Prime Time represents the hours of programming provided by The WB Network, except for KASY in Albuquerque - Santa Fe, NM for which programming is provided by UPN.

(4) Sign-on to Sign-off represents the hours from 7:00 a.m. through 1:00 a.m., Monday through Sunday.

KPLR: ST. LOUIS, MISSOURI

Designated Market Area: 22

TV Households: 1,121,000

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Total Age 2+ Population: 2,829,000

Market Description. Thirty-three percent of the total population of St. Louis is under 25 years of age. The estimated average household income in the St. Louis market is approximately \$46,200 per year. Major employers in the market include Anheuser-Busch, Emerson Electric, May Department Stores, Monsanto, Ralston Purina and TWA. The television advertising revenue in the St. Louis marketplace was estimated at \$231.4 million in 2000 and has grown at a compound annual rate of approximately 3.9% over the past five years.

Station Overview. We began operating KPLR under a local marketing agreement in October 1997 and acquired the station in March 1998. KPLR signed on the air in 1959 and has been affiliated with The WB Network since the network's launch. In addition to carrying The WB Network prime time programming and Kids' WB!, the station broadcasts a daily 9pm, half-hour local newscast and also has the exclusive broadcast rights to air games of the St. Louis Cardinals and the St. Louis Blues. In addition, the station's syndicated programming currently includes Friends, The Drew Carey Show, Spin City, Sabrina: The Teenage Witch and Cheers. The station has contracted for the future exclusive market broadcast rights to popular shows such as Everybody Loves Raymond (9/01), Will & Grace (9/02) and The 70's Show (9/02). In the November 2000 sweeps period, KPLR again delivered the highest household rating in WB prime time to rank number one versus all other WB affiliates in the country. KPLR also took top honors among adults aged 18 - 49. In the St. Louis market, KPLR continued to rank number one in the Monday through Sunday, 5:00 p.m. to 1:00 a.m. time period among St. Louis teens and persons aged 12 - 24. In the same time period, KPLR ranks third in the market for adults aged 18 - 49.

KWBP: PORTLAND, OREGON

Designated Market Area: 23 TV Households: 1,017,800  
Total Age 2+ Population: 2,539,000

Market Description. Thirty-two percent of the total population of Portland is under 25 years of age. The estimated average household income in the Portland market is approximately \$44,200 per year. Major employers in the market include Intel, Fred Meyer, Providence Health System, U.S. Bank of Oregon, Tektronix and Safeway. The television advertising revenue in the Portland marketplace was estimated at \$212.4 million in 2000 and has grown at a compound annual rate of approximately 7.8% over the past five years.

Station Overview. We began operating KWBP under a local marketing agreement in February 1997 and acquired the station in June 1997. KWBP signed on the air in 1989 and has been affiliated with The WB Network since the network's launch. In addition to carrying The WB Network prime time programming and Kids' WB!, the station's syndicated programming currently includes Star Trek: The Next Generation, Judge Judy, The Drew Carey Show and Xena: Warrior Princess. In addition, the station has contracted for the future exclusive-market broadcast rights to popular shows such as King of the Hill (9/01) and That 70's Show (9/02). In the November 2000 sweeps period, KWBP delivered an average weekly cumulative number of 572,000 households from sign-on to sign-off, representing a 22% increase over November 1999. KWBP was the fastest growing WB affiliate in the country in prime time for the November 2000 sweeps, as measured by the gain in its adult 18 - 49 year old ratings. The station also grew 50% in household ratings for the 7:00 a.m. to 1:00 a.m. time period compared to November 1999.

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KUWB: SALT LAKE CITY, UTAH

Designated Market Area: 36 TV Households: 732,400

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Total Age 2+ Population: 2,173,000

Market Description. Forty-five percent of the total population of Salt Lake City is under 25 years of age. The estimated average household income in the Salt Lake City market is approximately \$43,500 per year. Major employers in the market include Intermountain Health Care, Brigham Young University, IOMEGA, ICON Health and Fitness and Smith Food & Drug Centers. Salt Lake City is the site of the 2002 winter Olympic Games. The television advertising revenue in the Salt Lake City marketplace was estimated at \$154.9 million in 2000 and has grown at a compound annual rate of approximately 4.6% over the past five years.

Station Overview. We began operating KUWB in April 1998 under a local marketing agreement and acquired the station in September 1998. KUWB has been affiliated with The WB Network since the network's launch. When we began operating the station, we replaced the primarily religious paid programming and infomercials that were being run on the station in all non-WB Network time periods with syndicated programming. The station's syndicated programming currently includes The Drew Carey Show, Spin City and Sabrina: The Teenage Witch. It also carries the NBC-affiliated Saturday Night Live. The station has contracted for the future exclusive-market broadcast rights to popular shows such as, Everybody Loves Raymond (9/01) and That 70's Show (9/02). In the November 2000 sweeps period, KUWB delivered an average weekly cumulative number of 373,000 households from sign-on to sign-off, an increase of 14% compared to November 1999. The WB Network prime time programming continued to perform well in the market as highlighted by the 23% increase in its average household rating as compared to November of 1999.

KWBQ: ALBUQUERQUE - SANTA FE, NEW MEXICO

KASY: ALBUQUERQUE - SANTA FE, NEW MEXICO

Designated Market Area: 50 TV Households: 570,500  
Total Age 21 Population: 1,508,000

Market Description. Thirty-six percent of the total population of Albuquerque - Santa Fe is under 25 years of age. The estimated average household income in the Albuquerque - Santa Fe market is approximately \$38,400 per year. Major employers in the market include Intel, Motorola, General Electric, General Mills, Philips and Levi Strauss. The television advertising revenue in the Albuquerque - Santa Fe marketplace was estimated at \$100.7 million in 2000 and has grown at a compound annual rate of approximately 5.1% over the past five years. In October 2000, Albuquerque - Santa Fe became a metered market.

KWBQ Station Overview. We launched KWBQ in March 1999 with The WB Network prime time programming and Kids' WB!. In addition, the station's syndicated programming currently includes Spin City, Sabrina, Seinfeld and Third Rock from the Sun. The station has contracted for the future exclusive-market broadcast rights to popular shows such as Judge Judy (4/01), Judge Joe Brown (9/01), King of the Hill (9/01), Everybody Loves Raymond (9/01) and That 70s Show. In the November 2000 sweeps period, the station increased its weekly circulation 126% from 80,000 homes in November 1999 to 181,000 homes. Also, the household ratings increased 100% for WB Prime time and 150% for the 7:00 a.m. to 1:00 a.m. time periods compared to November 1999.

KASY Station Overview. We began operating KASY, the UPN affiliate in the market, under an interim LMA on November 1, 1999 and closed our purchase of the station on December 3, 1999. The station has been a UPN affiliate since that network's launch in January 1995. Prior to November 1999, the station had been operating as an LMA by another station owner in the market. The station's syndicated programming includes Star Trek: Next Generation, People's Court, Jerry Springer and Roseanne. All of the future program rights negotiated for KWBQ are also available to air on KASY. During the November 2000 ratings period, KASY reached an average of 220,000 households, sign-on to sign-off, Monday

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through Sunday, 7:00 a.m. to 1:00 a.m., an 88% increase over the homes reached just a year before. Also in November 2000, KASY ranked

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as the sixth fastest growing UPN affiliate in the country as measured by the percentage growth in the household rating during UPN prime time programming.

WBDT: DAYTON, OHIO

Designated Market Area: 56                      TV Households: 515,200  
Total Age 2+ Population: 1,285,000

Market Description. Thirty-three percent of the total population of Dayton, Ohio is under 25 years of age. The estimated average household income in the Dayton market is approximately \$44,500 per year. Major employers in the market include Chrysler Corp/Acustar Inc., General Motors, Bank One Dayton, American Matsushita and BF Goodrich. The television advertising revenue in the Dayton marketplace was estimated at \$86.2 million in 2000 and has grown at a compound annual rate of approximately 1.8% over the past five years. Dayton will become a metered market in October 2001.

Station Overview. We acquired WBDT in June 1999 after the May 1999 sweeps period. WBDT signed on the air in October 1980 and has been affiliated with The WB Network since our acquisition of the station. WBDT, former Pax Net station, currently carries a combination of Pax Net and WB Network programming. Pax Net programming including Diagnosis Murder and Touched by an Angel is shown during the morning and prime access time periods. The WB Network prime time programming and Kids' WB! is shown at The WB Network scheduled times. In addition, the station's syndicated programming currently includes Sabrina: The Teenage Witch, Seventh Heaven, Fresh Prince and Change of Heart, and the station has contracted for the future exclusive-market broadcast rights to popular shows such as Everybody Loves Raymond (9/01), That 70's Show (9/02) and Will & Grace (9/02). During the November 2000 sweeps period, WBDT reached an average of 140,000 households weekly, representing an 23% increase over the November 1999 sweeps period. The station also increased its 7:00 a.m. to 1:00 a.m. household ratings by 75% compared to the November 1999 sweeps period.

WBXX: KNOXVILLE, TENNESSEE

Designated Market Area: 63                      TV Households: 462,000  
Total Age 2+ Population: 1,124,000

Market Description. Thirty-one percent of the total population of Knoxville is under 25 years of age. The estimated average household income in the Knoxville market is approximately \$37,900 per year. Major employers in the market include the University of Tennessee, TVA, Oakridge National Laboratories, Alcoa and Nippondenso. The television advertising revenue in the Knoxville marketplace was estimated at \$77.7 million in 2000 and has grown at a compound annual rate of approximately 7.5% over the past five years.

Station Overview. We launched WBXX in October 1997. In addition to carrying The WB Network prime time programming and Kids' WB!, the station has broadcast rights to air games of the Atlanta Braves. In addition, the station's syndicated programming currently includes Friends, The Drew Carey Show, Spin City and Cheers. The station has contracted for the future exclusive-market broadcast rights to popular shows such as King of the Hill (9/01), That 70s Show (9/02) and Dharma & Gregg (9/02). In the November 2000 sweeps period, WBXX increased its household ratings for 7:00 a.m. to 1:00 a.m. and for the WB prime time periods by 22% and 15%, respectively, compared to November 1999. The station was also the number one WB affiliate in a non-metered market during the November



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2000 sweeps period.

WIWB: GREEN BAY - APPLETON, WISCONSIN

Designated Market Area: 69 TV Households: 398,500  
Total Age 2+ Population: 1,003,000

Market Description. Thirty-four percent of the total population of Green Bay - Appleton is under 25 years of age. The estimated average household income in the Green Bay - Appleton market is approximately \$41,900 per year. Major employers in the market include Fort James Corporation, the Oneida Tribe of Indians of Wisconsin, Schneider National, Humana, Shopko Stores, American Medical Security, Bellin

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Memorial Hospital and Procter & Gamble Paper Products. The television advertising revenue in the Green Bay - Appleton marketplace was estimated at \$59.1 million in 2000 and has grown at a compound annual rate of approximately 5.0% over the past five years.

Station Overview. We acquired WIWB in June 1999. WIWB signed on the air in August 1998 and has been affiliated with The WB Network since our acquisition of the station. WIWB, a former Pax Net station, currently carries a combination of Pax Net and WB Network programming. Pax Net programming including Diagnosis Murder and Touched by an Angel is shown during the morning and prime access time periods. The WB Network prime time and Kids' WB! is shown at The WB Network scheduled times. In addition, the station's syndicated programming currently includes Sabrina: The Teenage Witch and Seventh Heaven and the station has contracted for the future exclusive-market broadcast rights to popular shows such Everybody Loves Raymond (9/01), That 70's Show (9/02) and Will & Grace (9/02). In the November 2000 sweeps period, WIWB's reach in the Green Bay/Appleton market climbed 8% over the November 1999 sweeps period to a weekly average of 100,000 homes. Also, the station's household ratings for the 7:00 a.m. to 1:00 a.m. time period and for WB prime time increased 20% and 50%, respectively, over the November 1999 sweeps period.

WTVK: FT. MYERS - NAPLES, FLORIDA

Designated Market Area: 81 TV Households: 352,200  
Total Age 2+ Population: 832,000

Market Description. Twenty-four percent of the total population of Ft. Myers - Naples is under 25 years of age. The estimated average household income in the Ft. Myers - Naples market is approximately \$46,500 per year. Major employers in the market include The Lee County School District, Lee Memorial Health System, Columbia Healthcare and Publix SuperMarkets. The television advertising revenue in the Ft. Myers - Naples marketplace was estimated at \$69.2 million in 2000 and has grown at a compound annual rate of approximately 7.8% over the past five years. Ft. Myers - Naples will become a metered market in April 2001.

Station Overview. We began operating WTVK in March 1998 under a local marketing agreement and acquired the station in June 1998. WTVK signed on the air in October 1990 and has been affiliated with The WB Network since our acquisition of the station. In addition to carrying The WB Network prime time programming and Kids' WB!, the station's syndicated programming currently includes Sabrina: The Teenage Witch, Spin City, Star Trek: Voyager and The Drew Carey Show. The station has contracted for the future exclusive-market broadcast rights to popular shows such as Just Shoot Me (9/01), That 70's Show (9/02) and Dharma & Greg (9/02). WTVK delivered an average weekly household cumulative number of 73,000 in November 2000, a decrease of 19,000 households since

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November 1999. We believe that the decline in circulation for the station is primarily a result of undersampling by Nielsen in this market, a situation which should be resolved when Nielsen meters the market.

WBUI: CHAMPAIGN - SPRINGFIELD - DECATUR, ILLINOIS

Designated Market Area: 83 TV Households: 345,400  
Total Age 2+ Population: 837,000

Market Description. Thirty-three percent of the total population of Champaign - Springfield - Decatur is under 25 years of age. The estimated average household income in the Champaign - Springfield - Decatur market is approximately \$43,100 per year. Major employers in the market include ADM, Staley's, Caterpillar, Mueller, Illinois Power, Kraft and the University of Illinois. The television advertising revenue in the Champaign - Springfield - Decatur marketplace was estimated at \$46.0 million in 2000 and has grown at a compound annual rate of approximately 5.2% over the past five years.

Station Overview. We acquired WBUI in June 1999. WBUI signed on the air in May 1984 and has been affiliated with The WB Network since our acquisition of the station. WBUI, a former Pax Net station, currently carries a combination of Pax Net and WB Network programming. Pax Net programming including Diagnosis Murder and Touched by an Angel is shown during the morning and prime access time periods. The

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WB Network prime time and Kids' WB! is shown at The WB Network scheduled times. In addition, the station's syndicated programming currently includes Sabrina: The Teenage Witch, Spin City, and Star Trek: Voyager. The station has contracted for the future exclusive market broadcast rights to popular shows such as Everybody Loves Raymond (9/01) and That 70's Show (9/02). In the November 2000 sweeps period, WBUI's reach in its market increased 11% over the November 1999 period to a weekly average of 92,000 homes. Also, the station's 7:00 a.m. to 1:00 a.m. household ratings increased 20% over the November 1999 sweeps period.

In 2000, by mutual agreement, the Company terminated its joint sales agreement with DP Media for WZPX, serving the Grand Rapids, Michigan market. Neither party performed any services under that agreement.

### OUR AFFILIATION AGREEMENTS

Each of our nine WB Network affiliated stations has entered into a station affiliation agreement with The WB Network that provides each station with the exclusive right to broadcast The WB Network programming in its respective market. These affiliate agreements have three to 10 year terms that expire between March 2002 and April 2009. KASY, our UPN affiliated station in Albuquerque - Santa Fe, New Mexico, has entered into an affiliation agreement with UPN that expires in January 2005.

Under the affiliation agreements, The WB Network and UPN retain the right to program and sell approximately 75% of the advertising time available during their prime time schedule with the remaining 25% available for sale by our stations. Both networks retain approximately 50% of the advertising time available during kids' programming aired in other dayparts.

For our nine WB Network affiliated stations, in addition to the advertising time retained for sale by The WB Network, each station is also subject to annual compensation payments to The WB Network. The amount of compensation is determined by taking into account the station's average ratings among adults

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ages 18 - 49 during The WB Network prime time programming, as well as the number of prime time programming hours provided per week by The WB Network. For our UPN affiliate, KASY, no compensation is paid by either party. We participate in cooperative marketing efforts with The WB Network and UPN whereby the networks reimburse up to 50% of certain approved advertising expenditures by a station to promote network programming. Our affiliation agreements for KPLR, KWBP and WBXX, also entitle those stations to certain most favorable terms agreed to by The WB Network and any affiliate, during the term of the affiliation agreements, and any subsequent modifications.

In addition, as part of our acquisition of WBDT, WIWB and WBUI, we entered into a five-year secondary affiliation agreement with Pax Net at these stations. We are generally obligated to run the Pax Net prime time programming in certain morning dayparts. We retain a portion of the advertising time during this programming for local sales, and Pax Net retains the balance.

### ADVERTISING/SALES

Virtually all of our revenues for 1998, 1999 and 2000 consisted of advertising revenues, and no single advertiser accounted for more than 10% of our gross advertising revenues in these periods. Our advertising revenues are generated both by local advertising and national spot advertising.

Local Advertising. Local advertising revenues are generated by both local merchants and service providers and by regional and national businesses and advertising agencies located in a particular designated market area. Local advertising revenues represented 54% of our net advertising revenues in 1998, 55% in 1999 and 54% in 2000.

National Spot Advertising. National spot advertising represents time sold to national and regional advertisers based outside a station's designated market area. National spot advertising revenues represented

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46% of our net advertising revenues in 1998, 45% in 1999 and 46% in 2000. National spot advertising primarily comes from:

- new advertisers wishing to test a market;
- advertisers who are regional retailers and manufacturers without national distribution;
- advertisers who need to enhance network advertising in given markets; and
- advertisers wishing to place more advertisements in specified geographic areas.

### OUR COMPETITION

Broadcast television stations compete for advertising revenues primarily with other broadcast television stations in their respective markets and, to a lesser but increasing extent, with radio stations, cable television system operators, newspapers, billboard companies, direct mail and internet sites. Traditional network and Fox programming generally achieves higher household audience levels than that of The WB Network, UPN and syndicated programming aired by independent stations which is attributable to a number of factors, including:

- the traditional networks' efforts to reach a broader audience;

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- historically, less competition;
- generally better channel positions;
- more network programming being broadcast weekly;
- the traditional networks' cross-promotions; and
- the traditional networks' more established market presence than The WB Network.

However, because The WB Network and UPN provide fewer hours of programming per week than the traditional networks, we have a significantly higher inventory of advertising time for our own use and, therefore, our programs achieve a share of television market advertising revenues greater than their share of the market's audience. We believe that this available advertising time, combined with our efforts to attract (via our programming) the audiences that are key targets of advertisers, and our focus on advertising sales allows us to compete effectively for advertising revenues within our stations' markets.

The broadcasting industry is continuously faced with technical changes and innovations, the popularity of competing entertainment and communications media, changes in labor conditions, and governmental restrictions or actions of federal regulatory bodies, including the FCC, any of which could possibly have an adverse effect on a television station's operations and profits. Sources of video service other than conventional television stations, the most common being cable television, can increase competition for a broadcast television station by bringing distant broadcasting signals not otherwise available to the station's audience, serving as a distribution system for national satellite-delivered programming and other non-broadcast programming originated on a cable system and selling advertising time to local advertisers. Other principal sources of competition include home video exhibition, direct-to-home broadcast satellite television, entertainment services and multi-channel multi-point distribution services. Currently, two FCC permittees, DirectTV and Echostar, provide subscription DBS services via high-power communications satellites and small dish receivers, and other companies provide direct-to-home video service using lower powered satellites and larger receivers.

Other technology advances and regulatory changes affecting programming delivery through fiber optic telephone lines and video compression could lower entry barriers for new video channels and encourage the development of increasingly specialized niche programming. The Telecommunications Act of 1996 permits telephone companies to provide video distribution services via radio communication, on a common carrier basis, as cable systems or as open video systems, each pursuant to different regulatory schemes. We cannot predict the effect that these and other technological and regulatory changes will have on the broadcast television industry or on the future profitability and value of a particular broadcast television station.

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Broadcast television stations compete with other television stations in their designated market areas for the acquisition of programming. Generally, cable systems do not compete with local stations for programming, but various national cable networks do from time to time and on an increasing basis acquire programming that could have been offered to local television stations. Public broadcasting stations generally compete with commercially-rated broadcasters for viewers, but do not compete for advertising revenues. Historically, the cost of programming has increased because of an increase in the number of independent stations and a shortage of quality programming.

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## FEDERAL REGULATION OF TELEVISION BROADCASTING

Television broadcasting is a regulated industry and is subject to the jurisdiction of the FCC under the Communications Act of 1934, as amended from time to time. The Communications Act prohibits the operation of television broadcasting stations except under a license issued by the FCC. The Communications Act empowers the FCC, among other things:

- to issue, revoke and modify broadcast licenses;
- to decide whether to approve a change of ownership or control of station licenses;
- to regulate the equipment used by stations; and
- to adopt and implement regulations to carry out the provisions of the Communications Act.

Failure to observe FCC or other governmental rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of short, or less than maximum, license renewal terms or, for a particularly egregious violations, the denial of a license renewal application, the revocation of a license or denial of FCC consent to acquire additional broadcast properties.

License Grant, Renewal, Transfer and Assignment. A party must obtain a construction permit from the FCC to build a new television station. Once a station is constructed and commences broadcast operations, the permittee will receive a license which must be renewed by the FCC at the end of each license term (which may be as long as eight years under current law). The FCC grants renewal of a broadcast license if it finds that the station has served the public interest, convenience, and necessity, there have been no serious violations by the licensee of the Communications Act or FCC rules and policies, and there have been no other violations of the Communications Act and FCC rules and policies which, taken together, would constitute a pattern of abuse. If the FCC finds that a licensee has failed to meet these standards, the FCC may deny renewal, condition renewal, or impose some other sanction (such as a forfeiture). Any other party with standing may petition the FCC to deny a broadcaster's application for renewal. However, only if the FCC issues an order denying renewal will the FCC accept and consider applications from other parties for a construction permit for a new station to operate on that channel. The FCC may not consider any applicant in making determinations concerning the grant or denial of the licensee's renewal application. Although renewal of licenses is granted in the majority of cases even when petitions to deny have been filed, we cannot be sure our station licenses will be renewed for a full term or without modification.

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Our current licenses expire as follows:

STATION (BY MARKET RANKING)	EXPIRATION DATE
-----	-----
KPLR.....	February 1, 2006
KWBP.....	February 1, 2007
KUWB.....	October 1, 2006
KWBQ.....	October 1, 2006
KASY.....	October 1, 2006

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WBDT.....	October 1, 2005
WBXX.....	August 1, 2005
WIWB.....	December 1, 2005
WTVK.....	February 1, 2005
WBUI.....	December 1, 2005

The Communications Act prohibits the assignment of a broadcast license or the transfer of control of a broadcast licensee without the prior approval of the FCC. In determining whether to permit the assignment or transfer of control of, or the grant or renewal of, a broadcast license, the FCC considers a number of factors pertaining to the licensee, including:

- compliance with various rules limiting common ownership of media properties;
- the character of the licensee and those persons holding attributable interests therein; and
- compliance with the Communications Act's limitations on alien ownership.

Character generally refers to the likelihood that the licensee or applicant will comply with applicable law and regulation. Attributable interests generally refers to the level of ownership or other involvement in station operations which would result in the FCC attributing ownership of that station or other media outlet to the person or entity in determining compliance with FCC ownership limitations.

To obtain the FCC's prior consent to assign a broadcast license or transfer control of a broadcast licensee, an application must be filed with the FCC. If the application involves a substantial change in ownership or control, the application must be placed on public notice for a period of no less than 30 days during which petitions to deny the application may be filed by interested parties, including certain members of the public. If the FCC grants the application, interested parties have no less than 30 days from the date of public notice of the grant to seek reconsideration or review of that grant by the full commission or, as the case may be, a court of competent jurisdiction. The full FCC commission has an additional 10 days to set aside on its own motion any action taken by the FCC's staff. When passing on an assignment or transfer application, the FCC is prohibited from considering whether the public interest might be served by an assignment or transfer to any party other than the assignee or transferee specified in the application.

Ownership Restrictions. The officers, directors and equity owners of 5% or more of our outstanding voting stock or the voting stock of a company holding one or more broadcast licenses are deemed to have attributable interests in the broadcast company. Also, specified institutional investors, including mutual funds, insurance companies and banks acting in a fiduciary capacity, may own up to (but not as much as) 20% of the outstanding voting stock without being subject to attribution if they exercise no control over the management or policies of the broadcast company. Finally, even if it owns non-voting stock, a third party could be deemed to have an attributable interest if it owns more than 33 percent of a station's (or the Company's) asset value (which is defined by the FCC to mean the aggregate of equity plus debt) and either has another attributable interest in the same market as the station(s) or provides more than 15 percent of the weekly programming for the station(s).

The FCC rules generally prohibit the issuance of a license to to any party, or parties under common control, for a television station if that station's Grade B contour overlaps with the Grade B contour of another

television station in the same DMA in which that party or those parties already have an attributable interest. FCC rules provide an exception to that general prohibition under any one of the following circumstances:

- there will be eight independent full-power television stations in the DMA after the acquisition or merger and one of the two television stations owned by the same party is not among the top four-ranked stations in the DMA based on audience share;
- the station to be acquired is a "failing" station under FCC rules and policies;
- the station to be acquired is a "failed" station under FCC rules and policies; or
- the acquisition will result in the construction of a previously un-built station.

FCC regulations also prohibit one owner from having attributable interests in television broadcast stations that reach in the aggregate more than 35% of the nation's television households. For purposes of this calculation, stations in the UHF band, which covers channels 14 - 69 are attributed with only 50% of the households attributed to stations in the VHF band, which covers channels 2 - 13. Subject to certain exceptions, FCC rules generally allow the holder of an attributable interest in a television station to have an attributable interest in:

- up to six radio stations in a market with 20 independent media voices;
- up to four radio stations in a market with 10 independent media voices; and
- at least one radio station in any market.

At the same time, FCC rules and policies generally prohibit a party with an attributable interest in a television station from owning a daily newspaper or cable television system serving a community located within the relevant coverage area of that television station.

Restrictions on Foreign Ownership. The Communications Act prohibits the issuance of broadcast licenses to, or the holding of a broadcast license by, foreign citizens or any corporation of which more than 20% of the capital stock is owned of record or voted by non-U.S. citizens or their representatives or by a foreign government or a representative thereof, or by any corporation organized under the laws of a foreign country. The Communications Act also authorizes the FCC to prohibit the issuance of a broadcast license to, or the holding of a broadcast license by, any corporation controlled by any other corporation of which more than 25% of the capital stock is owned of record or voted by aliens. The FCC has interpreted these restrictions to apply to other forms of business organizations, including partnerships. As a result of these provisions, the licenses granted to our subsidiaries that hold FCC licenses could be revoked if more than 25% of our stock were directly or indirectly owned or voted by aliens. Our certificate of incorporation contains limitations on alien ownership and control substantially similar to those contained in the Communications Act. Pursuant to our certificate of incorporation, we have the right to refuse to sell shares to aliens or to repurchase alien-owned shares at their fair market value to the extent necessary, in the judgment of our board of directors, to comply with the alien ownership restrictions.

Programming and Operation. The Communications Act requires broadcasters to

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serve the public interest, convenience and necessity. The FCC has gradually restricted or eliminated many of the more formalized procedures it had developed to promote the broadcast of programming responsive to the needs of the station's community of license. Licensees continue to be required, however, to present programming that is responsive to community problems, needs and interests and to maintain certain records demonstrating such responsiveness. Complaints from viewers concerning a station's programming will be considered by the FCC when it evaluates the licensee's renewal application, but these complaints may be filed and considered at any time.

Stations must also pay regulatory and application fees and follow various FCC rules that regulate, among other things:

- political advertising;
- children's programming;

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- the broadcast of obscene or indecent programming;
- sponsorship identification; and
- technical operations.

Failure to observe these or other rules and policies can result in the imposition of various sanctions, including monetary forfeitures, the grant of short, less than the maximum, renewal terms, or for particularly egregious violations, the denial of a license renewal application or the revocation of a license.

Review of Must Carry Rules. FCC regulations implementing the Cable Television Consumer Protection and Competition Act of 1992 require each television broadcaster to elect, at three-year intervals beginning October 1, 1993, to either:

- require carriage of its signal by cable systems in the station's market which is referred to as must carry rules; or
- negotiate the terms on which such broadcast station would permit transmission of its signal by the cable systems within its market, which is referred to as retransmission consent.

The United States Supreme Court upheld the must-carry rules in a 1997 decision. These must carry rights are not absolute, and their exercise is dependent on a variety of factors such as:

- the number of active channels on the cable system;
- the location and size of the cable system; and
- the amount of programming on a broadcast station that duplicates the programming of another broadcast station carried by the cable system.

Therefore, under certain circumstances, a cable system may choose to decline to carry a given station. We have elected must carry with respect to each of our stations which are each carried on the related cable systems.

Local Marketing Agreements. Under FCC rules, the licensee of a television station providing more than 15% of another television station's programming under a local marketing agreement is considered to have an attributable interest in the other station for purposes of the FCC's national and local multiple



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ownership rules if both stations are located in the same market. The FCC also adopted a grandfathering policy providing that local marketing agreements that are in compliance with the previous FCC rules and policies and were entered into before November 5, 1996, would be permitted to continue in force until the FCC conducts its biennial review of regulations in 2004. Local marketing agreements entered into after November 5, 1996 but prior to the recently adopted FCC rules will be grandfathered until August 2001.

Prior to the adoption of the FCC's new rules, we did, from time to time, enter into local marketing agreements, generally in connection with pending station acquisitions. By using local marketing agreements, we can provide programming and other services to a station that we have agreed to acquire before we receive all applicable FCC and other governmental approvals.

Subject to ownership restrictions in the new FCC rules and policies, FCC rules and policies generally permit local marketing agreements if the station licensee retains ultimate responsibility for and control of the applicable station, including finances, personnel, programming and compliance with the FCC's rules and policies. We cannot be sure that we will be able to air all of our scheduled programming on a station with which we may have a local marketing agreement with, or that we would receive the revenue from the sale of advertising for such programming.

Digital Television Services. The FCC has adopted rules for implementing digital television service in the United States. Implementation of digital television will improve the technical quality of television signals and provide broadcasters the flexibility to offer new services, including high-definition television and data broadcasting.

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The FCC has established service rules and adopted a table of allotments for digital television. Under the table, all eligible broadcasters with a full-power television station are allocated a separate channel for digital television operation. Stations will be permitted to phase in their digital television operations over a period of years following the adoption of a final table of allotments, after which they will be required to surrender their license to broadcast the analog, or non-digital, television signal. Affiliates of the top four networks in the top thirty markets are already required to be on the air with a digital signal. Our stations must be on the air with a digital signal by May 1, 2002. Under applicable law and regulation, television broadcasters must return their analog license to the government by 2006 unless specified conditions exist, that in effect, limit the public's access to digital television transmissions in a particular market.

The Communications Act and the FCC's rules impose certain conditions on the FCC's implementation of digital television service. Among other requirements, the FCC must:

- limit the initial eligibility for licenses to existing television broadcast licensees or permittees (who held those licenses or permits by April 3, 1997);
- allow digital television licensees to offer ancillary and supplementary services; and
- charge appropriate fees to broadcasters that supply ancillary and supplementary services for which such broadcasters derive certain non-advertising revenues.

Equipment and other costs associated with the digital television

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transition, including the necessity of temporary dual-mode operations, will impose some near-term financial costs on television stations providing the services. The potential also exists for new sources of revenue to be derived from digital television. We cannot predict the overall effect the transition to digital television might have on our business.

Children's Television Act. FCC rules limit the amount of commercial matter that a television station may broadcast during programming directed primarily at children 12 years old and younger. FCC rules further require television stations to serve the educational and informational needs of children 16 years old and younger through the stations' own programming as well as through other means. Television broadcasters must file periodic reports with the FCC to document their compliance with foregoing obligations.

Other Pending FCC and Legislative Proceedings. In 1995, the FCC issued notices of proposed rulemaking proposing to modify or eliminate most of its remaining rules governing the broadcast network-affiliate relationship. The network-affiliate rules were originally intended to limit networks' ability to control programming aired by affiliates or to set station advertising rates and to reduce barriers to entry by networks. The dual network rule, which generally prevents a single entity from owning more than one broadcast television network, is among the rules under consideration in these proceedings. Although the Telecommunications Act substantially relaxed the dual network rule by providing that an entity may own more than one television network, none of the four major national television networks may merge with each other or acquire certain other networks in existence on February 8, 1996. We cannot predict how or when the FCC proceeding will be resolved or how those proceedings or the relaxation of the dual network rule may affect our business.

The Satellite Home Viewer Act allows satellite carriers to deliver broadcast programming to subscribers who are unable to obtain television network programming over the air from local television stations. Congress recently amended the act to facilitate the ability of satellite carriers to provide subscribers with programming from both local and non-local television station. The FCC has adopted rules to implement certain of those legislative changes and is conducting rulemaking proceedings to implement others.

On February 2, 2000, the FCC released a Report and Order which adopted new rules requiring broadcast licensees to provide equal employment opportunities. The new rules generally require broadcast licensees to widely disseminate information on employment vacancies and to promote diversification in their employment. The new rules supplemented a broadcaster's obligation to refrain from racial or other prohibited discrimination in its employment practices under other applicable federal as well as state and local laws and regulations. On January 16, 2001, the United States Court of Appeals for the District of Columbia Circuit declared certain portions of the new EEO rules to be unconstitutional, and on January 31, 2001, the FCC suspended implementation of all of its EEO rules. The FCC has asked the court to rehear certain aspects of its ruling. It

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is unclear at this date whether all or any of the FCC's EEO rules will be reinstated or whether the FCC will initiate any effort to fashion new EEO rules to comply with the court's ruling.

Federal regulatory agencies and Congress from time to time consider proposals for additional or revised rules. We cannot predict the resolution of these issues or other issues discussed above, although their outcome could, over a period of time, affect, either adversely or favorable, the broadcasting industry generally or us specifically.

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The foregoing summary of FCC and other governmental regulations is not intended to be comprehensive. For further information concerning the nature and extent of federal regulation of broadcast stations, you should refer to the Communications Act, other Congressional acts, FCC rules, and the public notices and rulings of the FCC.

### EMPLOYEES

At December 31, 2000, we had 331 employees, including 37 at KPLR in St. Louis who were subject to collective bargaining agreements. We believe that our relationships with our employees and the union representing our unionized employees are good.

### FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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," "intend," "should," "expect," "anticipate," "believe," "predict," "potential" "might" or "continue" 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. These risks, uncertainties and other factors include those identified under "Risk Factors" in this Annual Report on Form 10-K.

We are under no duty to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Annual Report on Form 10-K. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report on Form 10-K might not occur.

### RISK FACTORS

The following factors (in addition to others) could have a material and adverse impact on the Company's business:

Our highly leveraged financial position poses the following risks to stockholders:

- a substantial portion of our cash flow from operations will be required to service our indebtedness;
- our ability to obtain financing in the future for working capital, capital expenditures and general corporate purposes, including acquisitions might be impeded; and
- we are more vulnerable to economic downturns and our ability to withstand competitive pressures is limited.

We derive substantially all of our revenues from advertisers in diverse industries. If a number of our advertisers reduce their expenditures because of a general economic downturn, or an economic downturn in one or more industries or regions, or for any other reason, our results of operations would be materially and adversely affected. For example, a number of our advertisers reduced their advertising expenditures during the fourth quarter of 2000 and in early 2001 and we expect total broadcast television advertising revenue to decline during the first half of 2001.

Our future cash flow might not be sufficient to meet our obligations and commitments. If we do not meet our interest obligations under our credit agreement or indentures or if we otherwise default under these instruments, our debt may be accelerated under these instruments as well as other debt instruments we have. In addition, because we are highly leveraged, it could limit our ability to respond to market conditions or meet extraordinary capital needs. If we are unable to generate sufficient cash flow from operations to meet our obligations and commitments, we will be required to refinance or restructure our indebtedness or raise additional debt or equity capital. Additionally, we may be required to sell material assets or operations or delay or forego acquisitions. These alternative strategies might not be effected on satisfactory terms, if at all.

Our credit agreement and our subsidiaries' indentures contain restrictive covenants that may limit our ability to:

- incur additional debt;
- pay dividends;
- merge, consolidate or sell assets;
- make acquisitions or investments; or
- change the nature of our business.

Our credit agreement and indentures also require us to maintain certain financial covenants, including specified financial tests. In 2000, we failed to meet certain of these covenants and the banks waived our non-compliance. Although we do not currently have any borrowings outstanding under our credit facility, we expect to request a waiver of non-compliance, or an amendment changing, our quarterly minimum EBITDA tests for 2001. Without waivers or amendments, we may not be able to borrow under our credit agreement which might adversely affect our ability to make acquisitions as planned or meet general or extraordinary capital needs.

If we experience a change of control, either with respect to the credit agreement or either indenture, we might not have sufficient funds to repay all amounts outstanding under our revolving credit facility and to repurchase the notes, as may be required. Alternatively, if we are able to satisfy the change of control provisions, it would require a substantial diversion of cash flow from our operations and our acquisition plans and could have a material adverse effect on our economic viability.

We are a holding company with no operations of our own. Therefore, if our subsidiaries are unable to pay dividends or make distributions to us, we would be unable to make dividend payments to our stockholders or pay any future indebtedness. Our subsidiaries' ability to pay dividends and distributions to us is limited by the terms of our subsidiaries' credit agreement and indentures.

We have incurred losses from continuing operations in each of our fiscal years since inception and expect to continue to experience net losses in the foreseeable future. These net losses, which may be greater than our net losses in the past, are principally a result of interest expense on our outstanding debt and non-cash charges for depreciation and amortization expense related to fixed assets and goodwill related to acquisitions.

Our growth could be limited if we are unable to successfully implement our acquisition plans. Our ability to acquire additional television stations is

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affected by the following:

- many competing acquirers have greater resources available to make such acquisitions than we have;
- desired stations might not be available for purchase;
- we might be unable to obtain The WB Network affiliation for all of the stations we acquire;
- we might not have the financial resources necessary to acquire additional stations;
- we might be unable to obtain FCC approval of the assignments or transfers of control of FCC licenses; and
- the law limits the number and location of broadcasting properties that any one person or entity, including its affiliates, may own and could limit our ability to pursue desired stations.

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Generally when we sign acquisition agreements, we enter into interim local marketing agreements with the seller under which we receive all station revenues and pay all station expenses. Because the seller retains ultimate programming control, we bear the economic risks of paying station expenses until closing the acquisition.

Mr. Kellner's consulting agreement provides that he may perform services for other businesses unaffiliated with ours that, in certain limited circumstances, may be competitive. Because of Mr. Kellner's experience in the television broadcast industry, if Mr. Kellner provides services to a competing business, it could materially affect our operations.

Mr. Kellner's ownership and position at The WB Network could create conflicts with his position with us if our interests differ from those of The WB Network. Because Mr. Kellner is both our Chief Executive Officer and The WB Network's Chief Executive Officer, The WB Network requires that he recuse himself from any material transaction between The WB Network and us. Additionally, due to his responsibilities with AOL Time Warner's television networks division and The WB Network, Mr. Kellner will have limited time available to devote to us.

If we experience a significant decline in broadcast cash flow from KPLR we will not have any positive cash flow and will not be able to fulfill our current and future obligations and commitments. Due to negative net cash flow at several of our start-up stations, broadcast cash flow from KPLR accounted for more than 100% of our total broadcast cash flow in 2000.

The required conversion of the broadcast industry to provide digitally transmitted television signals will require us to make significant capital expenditures which may not be balanced by consumer demand for digital television. The FCC requires us to provide a digitally transmitted signal by 2002 for all of our stations and, generally, to stop using analog signals on the stations by 2006. Because digital television is generally available only in some of the top-ten viewing markets, we are unable to predict what the consumer demand for digital division will be or when the demand will arise.

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ITEM 2. PROPERTIES

All of our leased studio, office and tower facilities are leased pursuant to long-term leases. We believe that all facilities and equipment are adequate, with minor changes and additions, for conducting operations as presently contemplated. Set forth below is information with respect to our studios and other facilities for our current stations. Information as to tower size reflects the height above average terrain of the antenna radiation center.

MARKET -----	APPROXIMATE SIZE -----	OWNERSHIP -----
St. Louis, Missouri		
Studio and office facilities.....	36,000 sq. ft	Leased
Tower.....	1,011 ft	Leased
Portland, Oregon		
Studio and office facilities.....	15,255 sq. ft	Owned
Tower.....	1,785 ft	Leased
Digital Tower(2).....	1,716 ft	Owned
Salt Lake City, Utah		
Studio and office facilities.....	9,500 sq. ft	Leased
Tower.....	4,075 ft	Leased
Digital Tower(2).....	4,125 ft	Owned
Albuquerque - Santa Fe, New Mexico		
Studio and office facilities (joint for KWBQ and KASY).....	9,000 sq. ft	Leased
Tower (KWBQ).....	1,234 ft	Leased
Tower (KASY).....	4,187 ft	Leased
Dayton, Ohio		
Studio and office facilities.....	10,000 sq. ft	Leased
Tower.....	485 ft	Owned
Knoxville, Tennessee		
Studio and office facilities.....	8,000 sq. ft	Leased
Tower(1).....	2,399 ft	Owned
Green Bay - Appleton, Wisconsin		
Studio and office facilities.....	2,640 sq. ft	Leased
Tower(1).....	660 ft	Leased
Ft. Myers - Naples, Florida		
Studio and office facilities.....	5,000 sq. ft	Leased
Tower.....	1,000 ft	Leased
Champaign - Springfield - Decatur, Illinois		
Studio and office facilities.....	9,600 sq. ft	Owned
Tower(1).....	1,030 ft	Owned

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(1) Tower owned on leased property.

(2) Represents partnership interests in digital television towers in the Salt Lake City and Portland markets.

ITEM 3. LEGAL PROCEEDINGS

We currently, and from time to time, are involved in litigation incidental to the conduct of our business. We maintain comprehensive general liability and other insurance that we believe to be adequate for the purpose. We are not currently a party to any lawsuit or proceeding that we believe could have a material adverse effect on our financial condition or results of operations.

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## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the security holders during the fourth quarter of 2000.

## EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth information about our executive officers at December 31, 2000.

NAME ----	AGE ---	POSITION -----
Jamie Kellner.....	53	Chairman of the Board and Chief Executive Officer
Douglas Gealy.....	40	President, Chief Operating Officer and Director
Thomas Allen.....	48	Executive Vice President, Chief Financial Officer and Director
Edward Danduran.....	48	Vice President, Controller

Jamie Kellner is a founder of ACME and has served as our Chief Executive Officer and Chairman of the Board since 1997. Mr. Kellner is also a founder, Chief Executive Officer and partner of The WB Network since 1993. Previously, Mr. Kellner was President of Fox Broadcasting Company since its inception in 1986 to 1993. In March 2001, Mr. Kellner also became Chairman and Chief Executive Officer of AOL Time Warner's Television Networks division.

Douglas Gealy is a founder of ACME and has served as our President and Chief Operating Officer and as a member of our Board since 1997. Since December of 1996, Mr. Gealy has been involved in development activities for ACME. Before founding ACME, Mr. Gealy served for one year as Executive Vice President of Benedek Broadcasting Corporation. From 1991 to 1996, Mr. Gealy was a Vice President and General Manager of WCMH and its local marketing agreement, WWHO, both in Columbus, Ohio, and following the acquisition of these stations by NBC, served as President and General Manager of these stations.

Thomas Allen is a founder of ACME and has served as our Executive Vice President and Chief Financial Officer and as a member of our Board since 1997. Since June 1996, Mr. Allen has been involved in development activities for ACME. From August 1993 to May 1996, Mr. Allen was the Chief Operating Officer and Chief Financial Officer for Virgin Interactive Entertainment. Before that Mr. Allen served as Senior Vice President and Chief Financial Officer of the Fox Broadcasting Company from 1986 to 1993.

Edward Danduran has been our Vice President and Controller since July 1997. From November 1995 until April 1997, Mr. Danduran was a Financial Consultant for Virgin Interactive Entertainment, Inc. From 1989 to 1995, Mr. Danduran was the Chief Financial Officer of Phoneby, a business communications company.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the NASDAQ National Market under the symbol ACME. The high sale price of the common stock during 2000 was \$36.00 and the low sale price during the same period was \$4.69. As of March 26, 2001,

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there were 46 stockholders of record.

We have not declared or paid any cash dividends or distributions on our common stock since our inception. We anticipate that, for the foreseeable future, all earnings will be retained for use in our business and no cash dividends will be paid on our common stock. Any payment of future cash dividends on our common stock will be dependent upon the ability of our subsidiaries to pay dividends or make cash payments or advances to us. Our credit agreement and our subsidiaries' indentures impose restrictions on our subsidiaries' ability to make these payments. Our ability to pay future dividends will also be subject to restrictions under any future debt obligations and other factors that our board of directors deems relevant.

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Below are the Nasdaq high, low and closing prices of ACME Communications, Inc. for each quarter of 2000 and the fourth quarter of 1999.

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER*
	-----	-----	-----	-----
2000				
High.....	\$36.00	\$26.50	\$18.00	\$10.88
Low.....	20.00	8.63	8.38	4.69
Close.....	22.88	18.25	9.00	9.13
1999				
High.....	n/a	n/a	n/a	\$39.63
Low.....	n/a	n/a	n/a	27.00
Close.....	n/a	n/a	n/a	33.25

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\* the fourth quarter of 1999 includes September 30th, the first day the Company traded shares following its IPO.

ITEM 6. SELECTED FINANCIAL DATA

Following is ACME Communications' inception-to-date selected consolidated financial data. This data is derived from the audited Consolidated Financial Statements of the Company and should be read in conjunction with the Consolidated Financial Statements and Notes thereto (located at Item 8 of this filing) and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" (located at Item 7 of this filing).

	FOR THE YEARS ENDED DECEMBER 31,		
	1997	1998	1999
	-----	-----	-----
	(IN THOUSANDS)		
STATEMENT OF OPERATIONS DATA:			
Net revenues.....	\$ 11,347	\$ 43,928	\$ 60,008
Operating expenses:			
Station operating expenses.....	10,158	32,973	45,675
Depreciation and amortization.....	1,215	11,355	17,325
Corporate.....	1,415	2,627	6,398



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Equity-based compensation(1).....	---	---	39,688	
Operating loss.....	(1,441)	(3,027)	(49,078)	
Other income (expenses):				
Interest income.....	287	231	499	
Interest expense.....	(6,562)	(23,953)	(28,694)	
Gain (loss) on sale of assets.....	--	1,112	(11)	
Other.....	--	(380)	--	
Loss before income taxes and minority interest.....	(7,716)	(26,017)	(77,284)	
Income tax benefit.....	--	2,393	4,420	
Loss before minority interest.....	(7,716)	(23,624)	(72,864)	
Minority interest.....	237	1,684	2,085	
Net loss.....	\$ (7,479)	\$ (21,940)	\$ (70,779)	\$
Pro forma net loss per share:				
Loss before income taxes and minority interest, as reported.....	\$ (7,716)	\$ (26,017)	\$ (77,284)	\$
Pro forma tax benefit.....	--	8,398	12,259	
Loss before minority interest.....	(7,716)	(17,619)	(65,025)	
Pro forma minority interest allocation.....	237	1,385	1,629	
Pro forma net loss.....	\$ (7,479)	\$ (16,234)	\$ (63,396)	\$
Pro forma net loss per share, basic and diluted....	\$ (4.40)	\$ (3.22)	\$ (7.96)	\$
Basic and diluted weighted average common shares outstanding.....	1,701,370	5,045,256	7,961,379	1

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FOR THE YEARS ENDED DECEMBER 31,

	1997	1998	1999	
	(IN THOUSANDS)			
BALANCE SHEET DATA:				
Total assets.....	\$ 220,475	\$ 286,827	\$ 407,707	\$
Long-term debt (2).....	192,452	225,728	215,461	
Total stockholders' equity.....	16,306	1,413	126,835	
SUPPLEMENTAL FINANCIAL DATA:				
Broadcast cash flow and adjusted EBITDA (3):				
Operating loss.....	\$ (1,441)	\$ (3,027)	\$ (49,078)	\$
Add back:				
Equity-based compensation(1).....	--	--	39,688	
Depreciation and amortization.....	1,215	11,355	17,325	
LMA Fees.....	--	228	28	
Amortization of program rights.....	1,433	5,321	8,475	
Corporate expenses.....	1,415	2,627	6,398	
Adjusted program payments(3).....	(1,598)	(5,124)	(8,441)	
Broadcast cash flow.....	1,024	11,380	14,395	
Less:				

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Corporate expenses.....	1,415	2,627	6,398	
	-----	-----	-----	-----
Adjusted EBITDA.....	\$ (391)	\$ 8,753	\$ 7,997	\$
	=====	=====	=====	=====
Broadcast cash flow margin(3).....	9.0%	25.9%	24.0%	
Adjusted EBITDA margin(3).....	n/m	19.9%	13.3%	
Cash flows provided by (used in):				
Operating activities.....	\$ (599)	\$ 319	\$ 4,324	\$
Investing activities.....	\$ (191,730)	\$ (20,879)	\$ (80,705)	\$
Financing activities.....	\$ 201,153	\$ 12,737	\$ 99,226	\$

- 
- (1) Equity-based compensation for 1999 is comprised of approximately \$132,000 relating to station operating expenses and \$39.6 million relating to corporate expenses in 1999. For 2000, approximately \$313,000 relates to station operating expenses and \$216,000 relates to corporate expenses.
- (2) Includes the Company's 12% senior secured discount notes, the 10 7/8% senior discount notes, convertible debt, revolving credit facility and the long-term portion of the capital lease obligations
- (3) We define:
- broadcast cash flow as operating income, plus equity-based compensation, depreciation and amortization, LMA fees, amortization of program rights, and corporate expenses, less program payments -- the latter as adjusted to reflect reductions for liabilities relating to expired rights or rights which have been written-off in connection with acquisitions;
  - adjusted EBITDA as broadcast cash flow less corporate expenses;
  - broadcast cash flow margin is broadcast cash flow as a percentage of net revenues; and
  - adjusted EBITDA margin is adjusted EBITDA as a percentage of net revenues.

We have included broadcast cash flow, broadcast cash flow margin, adjusted EBITDA and adjusted EBITDA margin data because management believes that these measures are useful to an investor to evaluate our ability to service debt and to assess the earning ability of our stations' operations. However, you should not consider these items in isolation or as substitutes for net income, cash flows from operating activities or other statement of operations or cash flows data prepared in accordance with generally accepted accounting principles. These measures are not necessarily comparable to similarly titled measures employed by other companies.

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### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview

We derive revenues primarily from the sale of advertising time to local, regional and national advertisers. Our revenues depend on popular programming that attracts audiences in the demographic groups targeted by advertisers, allowing us to sell advertising time at satisfactory rates. Our revenues also depend significantly on factors such as the national and local economy and the level of local competition.

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Our revenues are generally highest 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 revenues reflect deductions from gross revenues for commissions payable to advertising agencies and national sales representatives.

Our primary ongoing operating expenses are programming costs, employee compensation, advertising and promotion expenditures and depreciation and amortization. Programming expense consists primarily of amortization of broadcast rights relating to syndicated programs as well as news production and sports rights fees. Changes in employee compensation expense result primarily from increases in total staffing levels, from adjustments to fixed salaries based on individual performance and inflation and from changes in sales commissions paid to our sales staff based on levels of advertising revenues. Advertising and promotion expenses consist primarily of media and related production costs resulting from the promotion of our stations and programs. This amount is net of any reimbursement received or due to us for such advertisement and promotion from The WB Network, UPN or from other program suppliers.

### Results of Operations

Years Ended December 31, 2000 compared to Year Ended December 31, 1999

Net revenues for the year ended December 31, 2000 increased \$13.4 million (22%) to \$73.4 million as compared to \$60.0 million for the year ended December 31, 1999. This increase reflects revenue gains at each station, and to a lesser extent, to the full-year impact in 2000 of stations acquired or launched during 1999 which were on the air for the full year 2000. Increases in revenue were driven primarily by increased ratings, improved distribution and higher unit prices.

Station operating expenses increased to \$54.1 million compared to the prior year's operating expenses of \$45.7 million. This increase of 18% was due primarily to increased programming expenses at many of our developing stations coupled with the full year impact in 2000 of stations acquired or launched during 1999.

Depreciation and amortization expense for the year was \$20.9 million compared to \$17.3 million for 1999. This \$3.6 million increase reflects the full year amortization of intangible assets and increased depreciation relating to the stations that were newly built or acquired in 1999 and ongoing upgrades of existing facilities, and the full year of amortization of the goodwill associated with our purchase of our subsidiary ACME Intermediate, LLC's minority interest upon our IPO.

Corporate expenses for 2000 decreased to \$3.5 million from \$6.4 million in 1999. Our 1999 expense included a non-recurring \$3.0 million charge relating to IPO bonuses paid primarily to the Company's senior management founders. All other corporate expenses increased 3% in 2000 over 1999 levels due primarily to the increase in costs associated with being a publicly traded company which were offset by a decrease in incentive compensation.

Equity-based compensation of \$529,000 in 2000 relates to options granted below market value in 1999 to senior management in exchange for their participation in the Company's previously established long term incentive plan. The \$39.7 million in 1999 relates primarily to a charge reflecting the fully vested common stock issued in connection with the Company's initial public offering in September 1999 in exchange for the management carry units that were issued in June 1997 to our senior founding management members.

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Interest expense for the current year was \$27.3 million compared to \$28.7 million for 1999. This \$1.4 million decrease in interest expense is the result of the elimination in 2000 of interest charges related to

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borrowings on the revolving credit facility and the Bridge Loan, both of which were repaid with proceeds from the IPO in October 1999, offset by increasing balances under the company's 10 7/8% Senior Discount Notes due 2004 (the "Television Notes") and 12% Senior Secured Discount Notes due 2005 (the "Intermediate Notes", and together with the Television Notes, the "Senior Notes").

In 2000, the Company sold its studio facility in St. Louis which resulted in a gain of \$1.572 million. We have leased these premises back under a short-term lease and expect to move to new facilities by the spring of 2002. We also sold our studio building in Albuquerque pursuant to a purchase option previously granted and leased those premises back under a long-term lease. The sale of the building in Albuquerque resulted in a loss of approximately \$67,000.

The tax benefit for 2000 was \$8.1 million, representing an effective tax benefit of 27%. The difference in the statutory federal rate of 34% and the Company's effective tax benefit of 27% relates to the impact of non-deductible expenses. Our 1999 tax benefit was \$4.4 million, reflecting the tax benefit of our fourth quarter taxable losses incurred subsequent to the September 30, 1999 termination of our non-taxable status and also includes the one-time impact of that termination.

Prior to the Reorganization, ACME Television Holdings, LLC was a limited liability company, therefore, no income taxes have been provided for its operations other than at its subsidiary ACME Television of Missouri, Inc. which is a C corporation subject to federal and state taxation. Any liability or benefit from the Company's non-taxable entities' consolidated income or loss is the responsibility of, or benefit to, the individual members.

In conjunction with the Reorganization, the Company terminated its non-taxable status. In conjunction with this termination, the Company recorded deferred tax assets and liabilities at the termination date for the difference between the financial statement carrying amount and tax bases of assets and liabilities.

Minority interest represents the allocation of the loss for the respective periods to the minority interest holders of our subsidiary ACME Intermediate Holdings, LLC. Effective with the Company's September 1999 reorganization, the minority interest holders exchanged their membership units of ACME Intermediate Holdings, LLC for stock in ACME Communications, Inc. Accordingly, there was no minority interest recorded for 2000 and the amount allocated to minority interests for 1999 reflects allocations through September 1999, excluding equity-based compensation charges, which were not allocated the minority interest.

Our broadcast cash flow for 2000 was \$20.1 million, compared to a \$14.4 million broadcast cash flow in 1999. This increase is primarily attributable to the increased revenue and margins at most of our stations.

Our net loss for the current year was \$22.0 million as compared with the \$70.8 million loss incurred in 1999, a decrease of \$48.8 million. This decrease in our net loss is primarily the result of the significant reduction in our equity-based compensation expense, a reduction of \$1.4 million in interest expense and our increased revenues and operating margins, net of increased depreciation and amortization expenses.

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Years Ended December 31, 1999 compared to Year Ended December 31, 1998

Net revenues for the year ended December 31, 1999 increased \$16.1 million (37%) to \$60.0 million as compared to \$43.9 million for the year ended December 31, 1998. This increase is due primarily to increases in revenues at each operating station, and to a lesser extent, to stations acquired or launched during 1999. Increases in revenue were driven primarily by increased ratings, distribution and higher unit prices.

Station operating expenses increased to \$45.7 million compared to the prior year's operating expenses of \$33.0 million. This increase of 38% was due to increased programming expenses at many of our stations coupled with the impact of newly acquired or launched stations during 1999.

Corporate expenses for 1999 increased to \$6.4 million from \$2.6 million in 1998. This increase reflects a \$3.0 million charge relating to IPO bonuses paid primarily to the Company's senior management founders and to increased staffing to support the additional stations launched or acquired in 1999.

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Equity-based compensation of \$39.7 million in 1999 relates to a charge reflecting the fully vested common stock issued in exchange for the management carry units that were issued in June 1997 to our senior management members in connection with the Company's initial public offering in September 1999. There was no such expense in 1998.

Depreciation and amortization expense for the year was \$17.3 million compared to \$11.4 million for 1998. This \$5.9 million increase reflects the amortization of intangible assets relating to newly acquired or launched stations in 2000 along with increased depreciation relating to newly built stations and ongoing upgrades of existing facilities.

Interest expense for the current year was \$28.7 million compared to \$24.0 million for 1998. This increase in interest expense relates to increasing balances under the company's Senior Notes, increased borrowings on the revolving credit facility, and interest expense associated with the Bridge Loan. The Bridge Loan and the increased borrowings under the revolving credit facility were both obtained to finance the purchase of WBDT, WBUI and WIWB, both of which were repaid with proceeds from the IPO in October 1999.

In 1998, the Company sold its interest in a construction permit for a station in the Springfield, Missouri market at a gain of \$1.1 million.

The tax benefit for 1999 was \$4.4 million, including the impact of the termination of the Company's non-taxable status, compared to a tax benefit of \$2.4 million in 1998. The increase relates primarily to the effect of the Company's taxable status in the fourth quarter of 1999.

Prior to the Reorganization, ACME Television Holdings, LLC was a limited liability company, therefore, no income taxes have been provided for its operations other than at its subsidiary ACME Television of Missouri, Inc. which is a C corporation subject to federal and state taxation. Any liability or benefit from the Company's non-taxable entities' consolidated income or loss is the responsibility of, or benefit to, the individual members.

In conjunction with the Reorganization, the Company terminated its non-taxable status. In conjunction with this termination, the Company recorded deferred tax assets and liabilities at the termination date for the difference between the financial statement carrying amount and tax bases of assets and

liabilities.

Minority interest represents the allocation of the loss for the respective periods to the minority interest holders of our subsidiary ACME Intermediate Holdings, LLC. Effective with the Company's September 1999 reorganization, the minority interest holders exchanged their membership units of ACME Intermediate Holdings, LLC for stock in ACME Communications, Inc. The amount allocated to minority interests for 1999 reflects allocations through September 1999, excluding equity-based compensation charges, which were not allocated the minority interest.

Our broadcast cash flow for 1999 was \$14.4 million, compared to an \$11.4 million broadcast cash flow in 1998. This increase is primarily attributable to the profitable operations at all of our stations that existed at the end of 1998, offset by start-up losses of approximately \$700,000 at station KWBQ, which launched in March 1999 and approximately \$2.6 million at our three early-stage development stations serving Dayton, Green Bay-Appleton and Champaign-Decatur acquired from Paxson Communications in June 1999.

Our net loss for the current year was \$70.8 million as compared with the \$21.9 million loss incurred in 1998, an increase of \$48.9 million. This increased loss is primarily the result of the equity-based compensation charge incurred in conjunction with our IPO along with increased interest, depreciation and amortization expenses, net of improved broadcast cash flow.

The Company's broadcast cash flow for the year ended December 31, 1999 was \$14.4 million, compared to an \$11.4 million broadcast cash flow in 1998. This increase is primarily attributable to improved profitability at stations KPLR, KWBP and WBXX and reduced losses at KUWB, offset by losses at newly acquired or launched stations KWBQ, WBDT, WIWB and WBUI.

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#### LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$13.3 million for the year ended December 31, 2000 compared to net cash provided by operating activities of \$4.3 million for 1999, an increase of \$9.0 million. The increase was primarily due to higher broadcast cash flows, reduced corporate expense and lower cash interest expense.

Net cash used in investing activities was \$8.2 million for the year ended December 31, 2000, compared to \$80.7 million for 1999. Most of the activity in 2000 relates to the Company's ongoing capital expenditures for the upgrading of its stations, including the build-out of digital facilities, net of \$2.6 million in proceeds from the sale of the KPLR studio facility. The major cash flows used in investing activities during 1999 related to the Company's acquisition stations KASY, WBDT, WIWB and WBUI, the build-out of KWBQ, launched in March 1999, ongoing capital expenditures at the Company's other stations and the acquisition of a 25% membership interests in digital facilities in Portland and Salt Lake City.

Net cash provided by financing activities for the year ended December 31, 2000 was \$2.1 million, which represented the net new borrowings in excess of repayments under the Company's various capital lease facilities. In 1999, net cash provided by financing activities was \$99.2 million and relates primarily to the Company's October 1999 initial public offering, which generated \$105.3 million in net proceeds to the Company, less net repayments on the Company's revolving credit facility of \$8 million.

The Company's revolving credit facility was amended in December 2000 and in

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connection with that amendment, the Company voluntarily reduced the banks' commitment and the financial covenants were revised. The facility allows for borrowings up to \$30.0 million, dependent upon our meeting certain financial ratio tests (see our Risk Factors in Item 1 of this filing). The facility amortizes to \$20.0 million by June 30, 2002 and expires on September 30, 2002. The revolving credit facility can be used to fund future acquisitions of broadcast stations and for general corporate purposes. At December 31, 2000, no borrowings were outstanding under the facility and \$30.0 million was available.

The Company also has \$4 million in capital lease facilities available at December 31, 2000. Borrowings under these facilities are generally repaid over five years. At December 31, 2000, amounts due under these facilities was \$9.5 million bearing an implicit average interest rate of 8.87% per annum.

Effective October 1, 2000, the Company's \$175 million 10 7/8% Senior Discount Notes due September 30, 2004 began accruing cash interest. Interest payments on these notes amounts to approximately \$9.5 million every six months, with the first payment due on March 31, 2001.

At December 31, 2000, the Company had cash and working capital of \$31.0 million.

The Company believes that existing cash balances, funds generated from operations and borrowings under its credit agreement and capital lease facilities, if necessary, will be sufficient to satisfy the Company's cash requirements for its existing operations for at least the next twelve months. The Company expects that any future acquisitions of television stations would be financed through these same sources and, if necessary, through additional debt and equity financings. However, there is no guarantee that such additional debt and/or equity will be available or available at terms acceptable to the Company.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's revolving credit facility has a variable interest rate. Accordingly, the Company's interest expense could be materially affected by future fluctuations in the applicable interest rate. The Company had no borrowings outstanding as of December 31, 2000.

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### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

#### INDEPENDENT AUDITORS' REPORT

The Board of Directors  
ACME Communications, Inc.:

We have audited the accompanying consolidated balance sheets of ACME Communications, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2000. In connection with our audit of the consolidated financial statements, we have also audited the financial statement schedules listed in the index of Item 14. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial

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statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ACME Communications, Inc. and subsidiaries as of December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedules, when considered in relation to the consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ KPMG LLP

Los Angeles, California  
February 13, 2001

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ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	AS OF DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
Current assets:		
Cash and cash equivalents.....	\$ 23,846	\$ 31,037
Accounts receivable, net.....	14,090	15,005
Current portion of programming rights.....	11,331	12,477
Prepaid expenses and other current assets.....	2,026	2,444
Deferred income taxes.....	2,448	1,139
	-----	-----
Total current assets.....	53,741	62,102
Property and equipment, net.....	25,116	29,471
Programming rights, net of current portion.....	14,704	10,984
Intangible assets, net.....	303,812	287,748
Other assets.....	10,334	9,140
	-----	-----
Total assets.....	\$407,707	\$399,445
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 5,570	\$ 7,337
Accrued liabilities.....	8,231	9,354
Current portion of programming rights payable.....	10,727	12,108
Current portion of obligations under lease.....	1,617	2,271
	-----	-----



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Total current liabilities.....	26,145	31,070
Programming rights payable, net of current portion.....	13,605	10,205
Obligations under lease, net of current portion.....	5,796	7,258
Other liabilities.....	297	250
Deferred income taxes.....	25,364	15,614
10 7/8% senior discount notes.....	161,695	175,000
12% senior secured notes.....	47,970	54,722
	-----	-----
Total liabilities.....	280,872	294,119
	-----	-----
Stockholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 shares authorized, no shares issued and outstanding.....	--	--
Common stock, \$.01 par value; 16,750,000 shares issued and outstanding.....	168	168
Additional paid-in capital.....	130,279	130,808
Accumulated deficit.....	(3,612)	(25,650)
	-----	-----
Total stockholders' equity.....	126,835	105,326
	-----	-----
Total liabilities and stockholders' equity.....	\$407,707	\$399,445
	=====	=====

See the notes to the consolidated financial statements

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ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net revenues.....	\$ 43,928	\$ 60,008	\$ 73,443
Operating expenses:			
Station operating expenses.....	32,973	45,675	54,141
Depreciation and amortization.....	11,355	17,325	20,885
Corporate.....	2,627	6,398	3,522
Equity-based compensation(1).....	--	39,688	529
	-----	-----	-----
Operating loss.....	(3,027)	(49,078)	(5,634)
Other income (expenses)			
Interest income.....	231	499	1,497
Interest expense.....	(23,953)	(28,694)	(27,275)
Gain (loss) on sale of asset.....	1,112	(11)	1,504
Other.....	(380)	--	(255)
	-----	-----	-----
Loss before income taxes and minority interest.....	(26,017)	(77,284)	(30,163)
Income tax benefit.....	2,393	4,420	8,125
	-----	-----	-----
Loss before minority interest.....	(23,624)	(72,864)	(22,038)
Minority interest.....	1,684	2,085	--
	-----	-----	-----
Net loss.....	\$ (21,940)	\$ (70,779)	\$ (22,038)
	=====	=====	=====

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Pro forma net loss per share:

Loss before income taxes and minority interest, as reported.....	\$ (26,017)	\$ (77,284)	\$ (30,163)
Pro forma tax benefit.....	8,398	12,259	8,125
	-----	-----	-----
Loss before minority interest.....	(17,619)	(65,025)	(22,038)
Pro forma minority interest allocation.....	1,385	1,629	--
	-----	-----	-----
Pro forma net loss.....	\$ (16,234)	\$ (63,396)	\$ (22,038)
	=====	=====	=====
Pro forma net loss per share, basic and diluted.....	\$ (3.22)	\$ (7.96)	\$ (1.32)
	=====	=====	=====
Basic and diluted weighted average common shares outstanding.....	5,045,256	7,961,379	16,750,000
	=====	=====	=====

(1) Equity-based compensation is comprised of station operating expenses and corporate expenses of \$132,000 and \$39.6 million, respectively, in 1999 and \$313,000 and \$216,000, respectively, in 2000.

See the notes to the consolidated financial statements

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ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL	ACCUMULATED	TOTAL
	SHARES	AMOUNT	PAID-IN CAPITAL	DEFICIT	STOCKHOLDERS' EQUITY
	-----	-----	-----	-----	-----
	(IN THOUSANDS)				
Balance at December 31, 1997.....	4,074	\$ 41	\$ 23,744	\$ (7,479)	\$ 16,300
Issuance of units, net.....	1,106	11	7,036	--	7,047
Net loss.....	--	--	--	(21,940)	(21,940)
	-----	-----	-----	-----	-----
Balance at December 31, 1998.....	5,180	52	30,780	(29,419)	1,413
Equity-based compensation.....	1,720	17	39,671	--	39,688
Issuance of stock options in exchange for long-term incentive plan.....	--	--	738	--	738
Conversion of convertible debt....	3,926	40	29,200	--	29,240
Acquisition of minority interest...	924	9	21,241	--	21,250
Initial public offering.....	5,000	50	105,235	--	105,285
Termination of non-taxable status.....	--	--	(96,586)	96,586	--
Net loss.....	--	--	--	(70,779)	(70,779)
	-----	-----	-----	-----	-----
Balance at December 31, 1999.....	16,750	168	130,279	(3,612)	126,833
Equity-based compensation.....	--	--	529	--	529
Net loss.....	--	--	--	(22,038)	(22,038)
	=====	=====	=====	=====	=====
Balance at December 31, 2000.....	16,750	\$168	\$130,808	\$ (25,650)	\$105,323
	=====	=====	=====	=====	=====

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## ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1999	2000
	(IN THOUSANDS)		
<b>Cash flows from operating activities:</b>			
Net loss.....	\$ (21,940)	\$ (70,779)	\$ (22,038)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization.....	11,355	17,325	20,886
Amortization of program rights.....	5,321	8,475	13,662
Amortization of debt issuance costs.....	989	1,044	1,607
Amortization of discount on 10 7/8% senior discount notes.....	14,170	16,247	13,305
Amortization of discount on 12% senior secured notes.....	5,189	5,918	6,752
Minority interest allocation.....	(1,684)	(2,085)	--
Equity-based compensation.....	--	39,688	529
Long-term incentive compensation.....	--	738	--
Deferred taxes.....	(2,393)	(4,420)	(8,441)
(Gain) loss on sale of assets.....	(1,112)	11	(1,504)
Changes in assets and liabilities:			
Increase in accounts receivables, net.....	(5,479)	(3,248)	(915)
(Increase) decrease in prepaid expenses.....	364	(622)	(418)
(Increase) decrease in other assets.....	(576)	(105)	104
Increase in accounts payable.....	59	1,145	1,767
Increase in accrued expenses.....	2,639	4,021	1,125
Payments for programming rights.....	(6,588)	(9,936)	(13,109)
Increase (decrease) in other liabilities.....	5	907	(47)
	-----	-----	-----
Net cash provided by operating activities.....	319	4,324	13,265
	-----	-----	-----
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment.....	(8,320)	(8,587)	(9,958)
Proceeds from sales of property and equipment.....	--	--	2,634
Purchases of and deposits for station interests.....	(16,675)	(72,118)	(866)
Cash acquired in acquisition -- St. Louis.....	779	--	--
Proceeds from sale of station interest.....	3,337	--	--
	-----	-----	-----
Net cash used in investing activities.....	(20,879)	(80,705)	(8,190)
	-----	-----	-----
<b>Cash flows from financing activities:</b>			
Increase in revolving credit facility.....	11,000	32,000	--
Increase in bridge loan.....	--	15,000	--
Payments on revolving credit facility.....	(3,000)	(40,000)	--
Payments on bridge loan.....	--	(15,000)	--
Proceeds from capital lease facilities.....	5,375	3,173	3,772
Payments on capital lease facilities.....	(638)	(1,232)	(1,656)
Proceeds from initial public offering.....	--	115,000	--
Costs of initial public offering.....	--	(9,715)	--
	-----	-----	-----
Net cash provided by financing activities.....	12,737	99,226	2,116

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Net increase (decrease) in cash.....	(7,823)	22,845	7,191
Cash at beginning of period.....	8,824	1,001	23,846
Cash at end of period.....	\$ 1,001	\$ 23,846	\$ 31,037
Supplemental disclosures of cash flow information:			
Cash payments for:			
Interest.....	\$ 864	\$ 2,591	\$ 831
Taxes.....	\$ 70	\$ 80	\$ 316
Non-cash transactions:			
Non-cash program rights in exchange for program rights payable.....	24,066	20,107	10,841
Issuance of equity in purchase transactions.....	7,047	--	--
Use of deposit as consideration for purchase transaction.....	143,000	--	--
Exchange of note receivable and option deposit as purchase consideration for station interest.....	--	7,000	--
Acquisition of minority interest of ACME Intermediate Holdings, LLC.....	--	21,250	--
Conversion of convertible debentures into common stock.....	\$ --	\$ 29,240	\$ --

See the notes to the consolidated financial statements.

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ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) DESCRIPTION OF THE BUSINESS AND FORMATION

Formation and Presentation

ACME Communications, Inc. was formed on July 23, 1999, in preparation for and in conjunction with an initial public offering of its stock.

On September 27, 1999, the Board of Advisors of ACME Television Holdings, LLC and its members approved a merger and reorganization (the "Reorganization"), whereby ACME Communications became the direct parent of ACME Television Holdings. As a result of the Reorganization, ACME Communications is the ultimate parent of ACME Intermediate Holdings, LLC, and its wholly-owned subsidiary ACME Television, LLC. All transactions contemplated as part of the Reorganization closed on October 5, 1999.

Among the significant transactions of the Reorganization were the exchange of shares of the Company's common stock for members' units, management carry units and convertible debt of ACME Television Holdings. The common stock exchanged for members' units in ACME Television Holdings was recorded at historical cost. The management carry units were treated as a variable compensation plan. As the number of shares of common stock issued to the holders of the management carry units were fixed and fully vested, compensation expense was recorded for the difference between the fair value of the shares issued and the expense previously recorded for the management carry units. The convertible debt was converted pursuant to its original conversion terms, and accordingly, no gain or loss was recognized. Also, the Company acquired the minority interest in ACME Intermediate Holdings for 923,938 shares of the Company's common stock. The acquisition of the minority interest was accounted for at fair market value.

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The financial statements for the years ended December 31, 1998 and 1999 give effect to the exchange of common stock for members' units.

On October 5, 1999, the Company completed its initial public offering of 5,000,000 shares of common stock at \$23 per share, before underwriters' discounts and other issuance costs. The Company received net proceeds of approximately \$105 million.

The accompanying consolidated financial statements are presented for ACME Communications, Inc. ("ACME" or the "Company") and its wholly-owned subsidiaries. Segment information is not presented since all of the Company's revenues are attributed to a single reportable segment.

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### ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

##### Nature of Business

ACME Communications is a holding company with no assets or independent operations other than its indirect wholly-owned subsidiary, ACME Television. ACME Television, through its wholly-owned subsidiaries, owns and operates the following ten commercially licensed broadcast television stations located throughout the United States:

STATION - CHANNEL -----	MARKET -----	NETWORK AFFILIATION -----
KPLR - 11	St. Louis.....	WB
KWBP - 32	Portland, OR.....	WB
KUWB - 30	Salt Lake City.....	WB
KWBQ - 19	Albuquerque - Santa Fe.....	WB
KASY - 50	Albuquerque - Santa Fe.....	UPN
WBDT - 26	Dayton.....	WB
WBXX - 20	Knoxville.....	WB
WIWB - 14	Green Bay - Appleton.....	WB
WTVK - 46	Ft. Myers/Naples.....	WB
WBUI - 23	Champaign - Springfield - Decatur.....	WB

#### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries. All significant inter-company transactions have been eliminated.

##### Revenue Recognition

Revenue from the sale of airtime related to advertising and contracted time is recognized at the time of broadcast. The Company records such revenues net of commissions of advertising agencies and national sales representatives.

##### Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the Company

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considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

### Accounts Receivable

Accounts receivable are presented net of the related allowance for doubtful accounts which totaled \$716,000 and \$1,009,000 at December 31, 1999 and 2000, respectively.

### Concentration of Credit Risk and Fair Value of Financial Statements

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable and cash. Due to the short-term nature of these instruments, the carrying value approximates the fair market value. The Company believes that concentrations of credit risk with respect to accounts receivable, which are unsecured, are limited due to the Company's ongoing relationship with its clients. The Company provides its estimate of uncollectible accounts. The Company has not experienced significant losses relating to accounts receivable. The estimated fair market of the 12% senior discount notes and the 10 7/8% senior secured notes was approximately \$43 million and \$151 million, respectively, at December 31, 2000.

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## ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

#### Program Rights

Program rights represent costs incurred for the right to broadcast certain features and syndicated television programs. Program rights are stated, on a gross basis, at the lower of amortized cost or estimated realizable value. The cost of such program rights and the corresponding liability are recorded when the initial program becomes available for broadcast under the contract. Generally, program rights are amortized over the life of the contract on a straight-line basis related to the usage of the program. The portion of the cost estimated to be amortized within one year and after one year are reflected in the balance sheets as current and non-current assets, respectively. The gross payments under these contracts that are due within one year and after one year are similarly classified as current and non-current liabilities.

#### Property and Equipment

Property and equipment are stated at cost. The cost of maintenance is expensed when incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets. When property is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the appropriate accounts and any gain or loss is included in the results of current operations. The principal lives used in determining depreciation rates of various assets are as follows:

Buildings and Improvements.....	20 - 30 years
Broadcast and other equipment.....	3 - 20 years
Furniture and fixtures.....	5 - 7 years
Vehicles.....	5 years

#### Intangible Assets

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Intangible assets consist of broadcast licenses and goodwill, both of which are amortized on a straight-line basis over a 20-year life.

	DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
Broadcast licenses.....	\$199,731	\$200,188
Goodwill.....	127,920	127,810
	-----	-----
Total intangible assets.....	327,651	327,998
Less: accumulated amortization.....	(23,839)	(40,250)
	-----	-----
Net intangible assets.....	303,812	287,748
	=====	=====

### 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. 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. 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.

### Local Marketing Agreements

In connection with station acquisitions, and pending FCC approval of the transfer of license assets, the Company generally enters into local marketing agreements with the sellers. Under the terms of these agreements, we obtain the right to program and sell advertising time on 100% of the station's inventory of

## ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

broadcast time, incur certain operating expenses and may make payments to the sellers. As the holder of the FCC license, the seller/licensee retains ultimate control and responsibility for all programming broadcast on the station. We, in turn, record revenues from the sale of advertising time and operating expenses for costs incurred. Included in the accompanying consolidated statements of operations for the years ended December 31, 1998, 1999, and 2000 are net revenues of \$6.8 million, \$125,000 and \$0, respectively, that relate to local marketing agreements. Payments of fees to the sellers for the years ended December 31, 1998, 1999, and 2000 were \$228,000, \$27,500, and \$0 respectively. At December 31, 2000, the Company was not obligated for any future payments to sellers.

### Carrying Value of Long-lived Assets

The Company follows Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The carrying value of long-lived assets (tangible, identifiable

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intangible, and goodwill) is reviewed if the facts and circumstances suggest that they may be impaired. For purposes of this review, assets are grouped at the station level, which is the lowest level for which there are identifiable cash flows. If this review indicates that an asset's carrying value will not be recoverable, as determined based on future expected, undiscounted cash flows, the carrying value is reduced to fair market value.

### Debt Discount

The Company issued its 12% Senior Secured Discount Notes and 10 7/8% Senior Discount Notes at a discount from the face value of the notes. The Company is accreting the discount on the notes using the level yield method.

### Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." In accordance with SFAS No. 109, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Prior to the Reorganization, ACME Television Holdings, LLC was a limited liability company, therefore, no income taxes have been provided for its operations other than at its subsidiary ACME Television of Missouri, Inc. which is a "C" corporation subject to federal and state taxation. Any liability or benefit from the Company's non-taxable entities' consolidated income or loss is the responsibility of, or benefit to, the individual members.

In conjunction with the Reorganization, the Company terminated its non-taxable status. In conjunction with this termination, the Company recorded deferred tax assets and liabilities at the termination date for the difference between the financial statement carrying amount and tax bases of assets and liabilities.

### Loss per Share

The Company calculates loss per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share. SFAS No. 128 requires a presentation of basic earnings per share ("EPS") and diluted EPS. Basic EPS includes no dilution and is computed by dividing income available to

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ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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, similar to fully diluted EPS under APB No. 15. 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. The statement requires dual presentation of basic and diluted EPS by entities with complex capital structures.



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The company calculated pro forma net loss per share for 1999 and 1998 based upon the historical results of operations adjusted to reflect (i) a provision for income taxes on historical earnings before income taxes, which gives effect to the change in the Company's income tax status to a C corporation and (ii) the impact on the net loss allocated to minority interests.

In addition, the Company has reflected the exchange of common stock for units for the years ended December 31, 1998 and 1999.

Stock options outstanding amounting to 3,263,391 shares at December 31, 2000, were not included in the computation of diluted EPS because to do so would have been antidilutive.

### Accounting for Stock Options

The Company has adopted Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize (over the vesting period) the expense of all stock-based awards. The expense is calculated based on the fair value at the date of grant. Alternatively, SFAS No. 123 allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income disclosure for employee stock option grants made, as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

### Reporting Comprehensive Income

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income." This statement, which establishes standards for reporting and disclosure of comprehensive income, is effective for interim and annual periods beginning after December 15, 1997. The Company adopted SFAS No. 130 effective January 1, 1998. Adoption had no impact on the Company's consolidated financial position or results of operations.

### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include the allowance for doubtful accounts net of the realizable value of programming rights and the evaluation of the recoverability of intangible assets. Actual results could differ from those estimates.

### Reclassifications

Certain amounts previously reported for 1998 and 1999 have been reclassified to conform to the 2000 financial statement presentation.

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ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### (3) PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

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	DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
Land.....	\$ 1,097	\$ 541
Buildings and improvements.....	5,555	5,459
Broadcast and other equipment.....	22,678	29,111
Furniture and fixtures.....	776	909
Vehicles.....	290	470
Construction in process.....	427	2,954
	-----	-----
Total.....	30,823	39,444
Less: Accumulated depreciation.....	(5,707)	(9,973)
	-----	-----
Net property and equipment.....	\$25,116	\$29,471
	=====	=====

Included in property and equipment are assets acquired under capital leases with a total cost of \$9,512,641 and \$12,843,556 and the associated accumulated depreciation of \$2,045,668 and \$3,647,846 at December 31, 1999 and 2000, respectively.

(4) ACQUISITIONS

On July 29, 1997, the Company entered into a stock purchase agreement to acquire Koplkar Communications, Inc. (KCI) the owner of station KPLR. On September 30, 1997, the Company placed \$143.0 million in to an escrow account. In connection with this acquisition, the Company entered into a long-term local marketing agreement with KPLR and filed the requisite applications with the FCC for the transfer of the Station's license to the Company.

Pursuant to the local marketing agreement, the Company retained all revenues generated by the station, bore substantially all operating expenses (excluding depreciation and amortization) of the station and was obligated to pay a local marketing agreement fee. These revenues and expenses for the period October 1 through December 31, 1997 are included in the Company's operating results for the year ended December 31, 1997.

On March 13, 1998, the Company completed its acquisition of Koplkar Communications, Inc. ("KCI") and acquired all of the outstanding stock of KCI for a total consideration of approximately \$146.3 million. The acquisition was accounted for using the purchase method. Pursuant to the local marketing agreement referred to above, all revenues and operating expenses of the station (excluding depreciation and amortization) for the period from September 30, 1997 to March 31, 1998 (the effective date of the purchase transaction) are included in the Company's operating results. The purchase transaction was recorded on the consolidated balance sheet of the Company effective March 31, 1998 and the Company's results of operations includes revenues and expenses (including amortization of intangible assets) beginning April 1, 1998.

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the acquisition of KPLR (in thousands):

Assets acquired:

Cash and cash equivalents.....	\$	779
Accounts receivables, net.....		1,703
Program broadcast rights.....		8,490
Property and equipment.....		2,233
Prepaid expenses and other current assets.....		416
FCC license.....		82,563
Goodwill.....		93,775
Other assets.....		395
		-----
Total assets acquired.....		\$190,354
		=====

Liabilities assumed:

Accounts payable.....	\$	(1,005)
Accrued liabilities.....		(1,332)
Program broadcast rights payable.....		(8,258)
Deferred income taxes.....		(29,889)
Other liabilities.....		(3,531)
		-----
Total liabilities assumed.....		\$(44,015)
		-----
Total purchase price.....		\$146,339
		=====

During 1997, the Company entered into an agreement that provided it with the right to: (i) acquire 49% of the licensee of KUPX (formerly KZAR) in exchange for membership units valued at \$6.0 million, and (ii) pay \$3.0 million for an option to acquire the remaining 51% interest in the licensee of KUPX for \$5.0 million, exercisable immediately after the station commences on-air operations. On December 15, 1997, the Company acquired the 49% interest in the licensee of KUPX, paid \$3.0 million to acquire the option and loaned the sellers \$4.0 million (to be applied to the subsequent majority interest purchase price). On January 22, 1998, the Company issued \$6.0 million of its member units to the sellers for the 49% interest in the license of KUPX in connection with the above transaction. The amount of the issuance was based upon a fixed dollar amount of consideration. The Company accounted for the 49% investment using the equity method of accounting. On February 16, 1999, the Company acquired the remaining 51% interest in KUPX. The \$4.0 million loan was applied against the remaining purchase price of \$5.0 million.

In May 1998 the Company and the majority owners of KUPX entered into an agreement with another broadcaster in Salt Lake City to (i) swap KUPX for KUWB, subject to FCC approval (ii) enable the Company to operate KUWB under a local marketing agreement and (iii) enable the owner of KUWB to operate KUPX under a local marketing agreement. Pursuant to the LMA's, the Company retains all operating revenues and expenses (excluding depreciation and amortization) of KUWB and the owner of KUWB retains all operating revenues and expenses (excluding depreciation and amortization) of KUPX. In March 1999, the FCC approved the swap of KUPX for KUWB and the transaction closed during the third quarter of 1999. The Company has accounted for the swap as a business combination and has recorded KUPX at its fair value. There was no significant difference between the fair value of KUPX and the historical cost of KUWB.

On August 22, 1997, the Company entered into an agreement with affiliates of the sellers of KZAR to acquire 100% of the interests in the construction permit for KAUO for a consideration of \$10,000. This agreement was consummated on January 22, 1998. Subsequently, the call letters of KAUO were changed to

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KWBQ. Construction of KWBQ was completed and the station commenced broadcasting in March 1999.

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### ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

On June 30, 1998, the Company acquired substantially all the assets and assumed certain liabilities of WTVK - Channel 46 serving the Fort Myers - Naples, Florida marketplace for approximately \$14.5 million in cash and 1,047 membership units (valued at approximately \$1.0 million). The acquisition was accounted for using the purchase method. The excess of the purchase price over the fair value of the net assets assumed of approximately \$15.5 million has been recorded as an intangible broadcast license and goodwill, both of which are being amortized over a period of 20 years. The Company had entered into a local marketing agreement with WTVK wherein the Company, effective March 3, 1998, retained all revenues generated by the station, bore all operating expenses of the station (excluding depreciation and amortization) and had the right to program the station (subject to WTVK's ultimate authority for programming) and the station's existing programming commitments. The local marketing agreement terminated upon the consummation of the acquisition. Consequently, under the local marketing agreement the revenues and operating expenses (excluding depreciation and amortization) of the station are included in the Company's results of operations from March 3, 1998 to June 30, 1998. The purchase transaction was recorded on the consolidated balance sheet of the Company on June 30, 1998 and the Company's results of operations includes revenues and expenses (including amortization of intangible assets) beginning July 1, 1998.

On April 23, 1999, the Company acquired the non-FCC license assets of three Paxson Communication Corporation stations serving the Dayton, OH, Green Bay, WI and Champaign - Decatur, IL markets for \$32.0 million. On June 23, 1999, following FCC approval of the transfer of the FCC licenses to ACME, the Company acquired the licenses and completed the acquisition of the three stations by making a final payment to PCC of \$8.0 million. The Company entered into local marketing agreements with the seller wherein the Company, effective June 2, 1999, retained all revenues generated by the stations, bore all operating expenses of the stations (excluding amortization) and had the right to program the stations (subject to the seller's ultimate authority for programming) and the stations' existing programming commitments. The local marketing agreement terminated upon the consummation of the acquisition. Consequently, under the local marketing agreement the revenues and operating expenses (excluding amortization) of the station are included in the Company's results of operations from June 2, 1999 to June 23, 1999. The purchase of the FCC licenses was recorded on the consolidated balance sheet of the Company on June 23, 1999 and the Company's results of operations includes revenues and expenses (including amortization of intangible assets) beginning June 24, 1999. The Company financed this \$40.0 million transaction by a \$25.0 million borrowing under its revolving credit agreement and a \$15.0 million loan from certain of its members (the "Bridge Loan"). The acquisition was accounted for using the purchase method. The excess of the purchase price over the fair market value of the assets acquired of approximately \$35.6 million has been recorded as intangible broadcast licenses and goodwill, all of which are being amortized over a period of 20 years.

On December 3, 1999, the Company acquired substantially all of the assets and assumed certain liabilities of station KASY TV - 50, serving the Albuquerque - Santa Fe, New Mexico market, from Ramar Communications ("Ramar") for approximately \$27 million. The Company entered into an interim LMA arrangement with Ramar to begin operating the station effective November 1, 1999. The interim LMA terminated upon the completion of the acquisition. Under

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the local marketing agreement, all of the revenues and operating expenses (excluding depreciation and amortization) of the station are included in the Company's results of operations from November 1, 1999 to December 3, 1999. The purchase transaction was recorded on December 3, 1999 and the Company's results of operations (including depreciation and amortization) beginning December 3, 1999.

The unaudited pro forma financial information for the years ended December 31, 1998 and 1999, set forth below reflects the net revenues and net loss assuming the KWBP, WBXX, KPLR, KUWB, WTVK, KWBQ, KASY, WBDT, WBUI and WIWB transactions had taken place at the beginning of each respective

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### ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

year. This unaudited pro forma financial information does not necessarily reflect the results of operations that would have occurred had the acquisitions occurred on January 1, 1998 and 1999.

	YEAR ENDED DECEMBER 31,	
	1998	1999
	(UNAUDITED)	
Net revenues.....	\$ 49,905	\$ 63,109
Net loss.....	(25,988)	(74,576)
Net loss per share.....	\$ (5.15)	\$ (9.37)

#### (5) UNIT OFFERING AND 12% SENIOR SECURED DISCOUNT NOTES

On September 30, 1997, ACME Intermediate issued 71,634 Units (the Unit Offering) consisting of 71,634 membership units (representing 8% of the ACME Intermediate's outstanding membership equity) and \$71,634,000 (par value at maturity) in 12% senior secured discount notes due 2005 (Intermediate Notes). Cash interest on the Intermediate Notes is payable semi-annually in arrears, commencing with the six-month period ending March 31, 2003. The Notes mature on September 30, 2005 and may not be prepaid without penalty prior to October 1, 2003. The net proceeds from the Unit Offering, after the deduction of underwriter fees and other related offering costs, were \$38.3 million and were received by the Company on September 30, 1997. The Company allocated approximately \$4.2 million of such net proceeds to minority interest, \$35.6 million to the Intermediate notes and \$1.5 million to prepaid financing costs -- the latter which is being amortized over the eight-year term of the notes. The Intermediate Notes contain certain covenants and restrictions including restrictions on future indebtedness and restricted payments, as defined, and limitations on liens, investments, transactions with affiliates and certain asset sales. The Company was in compliance with all such covenants and restrictions at December 31, 2000. In connection with the Reorganization the membership units issued in the unit offering (representing a minority interest) were acquired by the Company for shares of the Company's stock. The acquisition of minority interest was recorded based upon the fair market value of the stock issued.

The Intermediate Notes are secured by a first priority lien on the limited liability company interests in ACME Television and ACME Subsidiary Holdings II,

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LLC, both of which are direct wholly-owned subsidiaries of ACME Intermediate. ACME Subsidiary Holdings II, LLC was formed solely to own a 0.5% interest in ACME Television, has no other assets or operations and does not constitute a substantial portion of the collateral for the Intermediate Notes.

### (6) 10 7/8% SENIOR DISCOUNT NOTES

On September 30, 1997, ACME Television issued 10.875% senior discount notes due 2004 (Notes) with a face value of \$175,000,000 and received \$127,370,000 in gross proceeds from such issuance. These Notes provide for semi-annual cash interest payments commencing with the six-month period ending on March 31, 2001. At December 31, 2000 \$4,758,000 in accrued interest on these notes was included in current accrued liabilities. The Notes are subordinated to ACME Television's bank revolver (see Note 7) and to the ACME Television's capital equipment finance facilities (see Note 10). The Notes mature on September 30, 2004. Other than prepayment with the proceeds of a public equity offering, the notes may not be prepaid prior to September 30, 2001 and may not be prepaid without penalty prior to October 1, 2003.

The Notes contain certain covenants and restrictions including restrictions on future indebtedness and limitations on investments, and transactions with affiliates. ACME Television was in compliance with all such covenants and restrictions at December 31, 2000.

Costs associated with the issuance of these notes, including the underwriters fees and related professional fees are included in long-term other assets and will be amortized over the seven year term of the notes.

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### ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

ACME Television's subsidiaries (hereinafter referred to in this section collectively as Subsidiary Guarantors) are fully, unconditionally, and jointly and severally liable for ACME Television's notes. The Subsidiary Guarantors are wholly owned and constitute all of ACME Television's direct and indirect subsidiaries except for ACME Finance Corporation, a wholly owned finance subsidiary of ACME Television with essentially no independent operations that is jointly and severally liable with the Company on the Notes. ACME Television has not included separate financial statements of the aforementioned subsidiaries because (i) ACME Television is a holding company with no assets or independent operations other than its investments in its subsidiaries and (ii) the separate financial statements and other disclosures concerning such subsidiaries are not deemed material to investors.

Various agreements to which ACME Television and/or the Subsidiary Guarantors are parties restrict the activity of the Subsidiary Guarantors to make distributions to the Company. The Investment and Loan Agreement (the Investment Agreement), dated June 17, 1997, as amended, among the Company and the parties thereto and the Limited Liability Company Agreement (the LLC Agreement), dated June 17, 1997, as amended, among the Company and the parties thereto each contain certain restrictions on the ability of the Subsidiary Guarantors to declare or pay dividends to ACME Television in the absence of the consent of certain parties thereto. The Indenture governing the Notes prevents the Subsidiary Guarantors from declaring or paying any dividend or distribution to ACME Television unless certain financial covenants are satisfied and there has been no default thereof. The revolving credit facility with Canadian Imperial Bank Corporation (see Note 7) also prohibits distributions from the Subsidiary Guarantors to ACME Television except in certain circumstances during which default has not occurred thereunder.

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### (7) BANK REVOLVER

ACME Television has a revolving credit facility (the Loan Agreement) with Canadian Imperial Bank Corporation (CIBC), as agent and lead lender. Under the terms of the Loan Agreement, advances bear interest at a base rate, that at our option, is either the bank's prime rate or LIBOR, plus a spread. Commitment fees are charged at a rate of .5% per annum, paid quarterly, on the unused portion of the facility. On December 29, 2000, the Loan Agreement was amended to provide less restrictive financial covenants and the Company voluntarily reduced the Banks' aggregate commitment from \$40 million to \$30 million as of December 31, 2000. The commitment amortization rate was reduced throughout the balance of the term, which ends September 30, 2002. As of December 31, 1999 and 2000 there were no outstanding balances under the Loan Agreement.

The Loan Agreement contains certain covenants and restrictions including restrictions on future indebtedness and limitations on investments and transactions with affiliates. ACME Television was in compliance with all such covenants and restrictions at December 31, 2000.

Costs associated with the procuring of bank credit facilities, including loan fees and related professional fees, are included in long-term other assets and are amortized over the term of the Loan Agreement.

### (8) CONVERTIBLE DEBENTURES

On June 30, 1997 and on September 30, 1997 the Company issued convertible debentures to certain investors in the aggregate amount of \$24,756,000. The debentures bore an interest rate of 10% per annum, compounded annually.

Pursuant to the terms of the debentures, on September 30, 1999, the holders elected to convert all of the outstanding principal and accrued interest into membership units of ACME Television Holdings, LLC which were then converted into ACME Communications, Inc. common stock in connection with the Reorganization. The conversion rate was fixed by contract and represented 24,756 membership units that were converted to 3,926,191 shares of common stock.

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## ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### (9) BRIDGE LOAN

On April 23, 1999, the Company entered into a \$15.0 million loan agreement (the Bridge Loan) with certain investors, and the proceeds were used to partially fund the acquisition of the property and equipment assets of Stations WBDT, WBWI and WBUI.

The entire loan, plus the accrued interest, was repaid at the closing of our initial public offering on October 5, 1999.

### (10) COMMITMENTS AND CONTINGENCIES

#### Obligations Under Operating Leases

The Company is obligated under non-cancelable operating leases for office space, office equipment, broadcast equipment and tower sites. Future minimum lease payments as of the year ended December 31, 2000, under non-cancelable operating leases with initial or remaining terms of one year or more are:

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	(IN THOUSANDS)
	-----
2001.....	\$1,752
2002.....	1,430
2003.....	1,289
2004.....	1,067
2005.....	754
Thereafter.....	3,178
	-----
Total.....	\$9,470
	=====

Total rental expense under operating leases for the twelve months ended December 31, 1998, 1999 and 2000 was approximately \$967,463, \$850,383 and \$1,739,591, respectively.

Obligations Under Capital Leases

As of December 31, 2000, certain equipment was leased under capital equipment facilities. These capital lease obligations expire over the next five years. Future minimum lease payments as of December 31, 2000 under capital leases are:

	(IN THOUSANDS)
	-----
2001.....	\$ 2,917
2002.....	2,897
2003.....	2,721
2004.....	1,724
2005.....	918
	-----
Total.....	\$11,177
Less: Amount representing interest.....	(1,648)
	-----
Present value of minimum lease payments.....	9,529
Less: Current portion.....	(2,271)
	-----
Long-term portion.....	\$ 7,258
	=====

Program Rights Payable

Commitments for program rights that have been executed, but which have not been recorded in the accompanying financial statements, as the underlying programming is not yet available for broadcast, were approximately \$7,862,000 and \$23,475,000 as of December 31, 1999 and 2000, respectively.



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not recognized in the accompanying financial statements due to the lack of current availability for broadcast) for each of the next five years are:

	(IN THOUSANDS)
	-----
2001.....	\$12,108
2002.....	12,107
2003.....	10,299
2004.....	7,866
2005.....	3,385
Thereafter.....	23
	-----
Total.....	\$45,788
	=====

### Certain Compensation Arrangements

In June 1997, the Company issued an aggregate of 100 management carry units to certain members of management. These units entitled holders to certain distribution rights upon achievement of certain returns by non-management investors and are subject to forfeiture or repurchase by the Company in the event of termination of each individual's employment by the Company under certain specified circumstances. These management carry units were accounted for as a variable plan and expensed as it became probable that any such distributions would be made. The Company determined the value of these at the issuance date to be immaterial. Upon the closing of our IPO these management carry units were exchanged for fully vested shares of our common stock. During 1999, the Company recorded an expense of \$39.6 million relating to the units. No expense was recorded relating to these units in 2000 or 1998.

### Legal Proceedings

We are currently, and from time to time, involved in litigation incidental to the conduct of our business. We are not currently a party to any lawsuit or proceeding that we believe would have a material adverse effect on our financial condition, results of operations or liquidity.

### (11) INCOME TAXES

The income tax benefits consists of the following:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	-----	-----	-----
	(IN THOUSANDS)		
<b>Current:</b>			
Federal income taxes.....	\$ --	\$ --	\$ --
State income taxes.....	--	--	316
	-----	-----	-----
Total current tax expense.....	\$ --	\$ --	\$ 316
<b>Deferred:</b>			
Federal income taxes.....	\$(2,393)	\$(4,420)	\$(7,517)
State income taxes.....	--	--	(924)
	-----	-----	-----

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Total deferred tax benefit.....	(2,393)	(4,420)	(8,441)
	-----	-----	-----
Total income tax benefit.....	\$ (2,393)	\$ (4,420)	\$ (8,125)
	=====	=====	=====

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ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The differences between the income tax benefit and income taxes computed using the U.S. Federal statutory income tax rates (34%) consist of the following:

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	EXPENSE/ (BENEFIT)		
	(IN THOUSANDS)		
Tax benefit at U.S. Federal rate.....	\$ (8,273)	\$ (25,567)	\$ (10,255)
State income taxes, net of Federal tax benefit.....	(261)	(489)	(627)
Termination of non-taxable status.....	--	(953)	--
Losses allocated to LLC members.....	4,802	7,193	--
Nondeductible expenses.....	1,430	15,202	2,373
Other.....	(91)	194	384
	-----	-----	-----
Income tax benefit.....	\$ (2,393)	\$ (4,420)	\$ (8,125)
	=====	=====	=====

Deferred Income Taxes. Prior to our reorganization into a "C" corporation in October 1999, the Company was a limited liability corporation and, therefore, all federal tax attributes were passed through to the members of the Company, other than those tax attributes for its Missouri operations which are organized as "C" corporations. The data listed below take into consideration the tax effect to the Company after its reorganization.

	YEAR ENDED DECEMBER 31,	
	1999	2000
	(IN THOUSANDS)	
Current deferred tax assets:		
Accrued vacation.....	\$ 170	\$ 200
State income taxes.....	49	49
Bad debt and other reserves.....	2,126	386
Deferred revenue.....	86	141
Other.....	17	363
	-----	-----
Total current deferred tax assets.....	2,448	1,139
	-----	-----
Non-current deferred tax liabilities:		

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Fixed asset depreciation.....	(500)	(146)
Intangible amortization.....	(28,700)	(27,164)
Deferred compensation.....	332	546
Net operating loss carryforward.....	4,971	12,759
Program amortization.....	(1,533)	(1,801)
Charitable contributions.....	66	98
Other.....	--	94
	-----	-----
Total non-current.....	(25,364)	(15,614)
	-----	-----
Total net deferred income tax liabilities.....	\$ (22,916)	\$ (14,475)
	=====	=====

(12) RELATED PARTY TRANSACTIONS

The Company's stations have entered into affiliation agreements and, from time to time, related marketing arrangements with The WB Network. Jamie Kellner, Chairman of the Board and Chief Executive Officer, is an owner and the chief executive officer of The WB Network.

Pursuant to June 1995 agreements among Koplak Communications, Inc., Roberts Broadcasting, Michael Roberts and Steven C. Roberts, Roberts Broadcasting cannot (i) transfer its license for WHSL, East

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ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

St. Louis, Illinois, (ii) commit any programming time of the station for commercial programming or advertising or (iii) enter into a local marketing agreement with respect to such station until June 1, 2000. In the event that the current affiliation agreement for WHSL is terminated, the substitute format must be substantially similar to the current home shopping network format or, in the alternative, an infomercial format. The annual payment from KPLR for these agreements was \$200,000 during the first three years. The Company paid \$300,000 in both 1998 and 1999 under this agreement, no payments were made in 2000.

In connection with our Salt Lake City and New Mexico stations, the Company has entered into long-term agreements to lease studio facilities and/or transmission tower space for KUWB, KUPX and KWBQ from an affiliate of Michael Roberts. Michael Roberts serves on the Company's Board of Directors. These leases have terms of approximately fifteen years and provide for monthly payments aggregating approximately \$25,000, subject to adjustment based on the Consumer Price Index.

In connection with the acquisition of WBUI, WIWB and WBDT in June of 1999, we paid CEA, Inc. a broker's fee of \$125,000. CEA, Inc. also received compensation from the seller in connection with the purchase of WBUI, WIWB and WBDT. One of our directors, Mr. Collis, is an officer of an affiliate of CEA Capital Partners.

(13) DEFINED CONTRIBUTION PLAN

In 1999, the Company established a 401(k) defined contribution plan (the Plan) which covers all eligible employees (as defined in the Plan). Participants are allowed to make non-forfeitable contributions up to 15% of their annual salary, but may not exceed the annual maximum contribution limitations established by the Internal Revenue Service. The Company currently matches 50% of the amounts contributed by each participant but does not match participants'

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contributions in excess of 6% of their contribution per pay period. The Company contributed and expensed \$200,000 to the Plan for the year ended December 31, 1998, \$173,000 for the year ended December 31, 1999 and \$273,000 for the year ended December 31, 2000.

### (14) STOCK OPTION COMPENSATION

Our 1999 Stock Incentive Plan provides additional means to attract, motivate, reward and retain key personnel. The Compensation Committee of the Board of Directors (the plan administrator) has the authority to grant different types of stock and cash incentive awards and to select participants. While only stock options and restricted stock awards are contemplated at this time, other forms of awards may be granted give us flexibility to structure future incentives. Our employees, officers, directors, and consultants may be selected to receive awards under the plan.

A maximum of 4,200,000 shares of our common stock may be issued under the plan, (approximately 25.08% of our current outstanding shares). The number of shares subject to stock options and stock appreciation rights granted under the plan to any one person in a calendar year cannot exceed 1,000,000 shares. The number of shares subject to all awards granted under the plan to any one person in a calendar year cannot exceed 1,000,000 shares. Performance-based awards payable solely in cash that are granted under the plan to any one person in a calendar year cannot provide for payment of more than \$1,000,000.

Each share limit and award under the plan is subject to adjustment for certain changes in our capital structure, reorganizations and other extraordinary events. Shares subject to awards that are not paid or exercised before they expire or are terminated are available for future grants under the plan.

In conjunction with the reorganization and initial public offering, approximately 2,834,091 shares subject to options were granted.

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### ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Currently outstanding options represent 10-year stock option grants. The outstanding option grants consist of:

- Options to acquire 283,500 shares upon conversion of our long-term incentive compensation plan awards. These options were granted at an exercise price of \$15.00 per share and vest in equal thirds on December 31, 2000, 2001 and 2002.
- Options to acquire approximately an additional 341,500 shares granted as incentives to employees and other eligible persons. Of these grants, options to acquire 58,500 shares were granted at an exercise price of \$18.00 per share and options to acquire 283,000 shares were granted at \$23.00 per share, the initial public offering price of our shares of common stock. These options vest in equal installments over five years.
- Options to acquire an additional 2,209,091 shares, or approximately 13% of our common stock after giving effect to the Company's initial public offering, were granted to Messrs. Kellner, Gealy, and Allen. Of this number, options to acquire 838,635 shares were granted to Mr. Kellner, options to acquire 685,228 shares were granted to Mr. Gealy, and options to acquire 685,228 shares were granted to Mr. Allen. These options were granted at \$23.00 per share, the initial public offering price of our

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shares of common stock and vest in four equal annual installments. The first installment vested on September 29, 2000. Vesting of these options accelerates upon a change of control, death, disability or termination without cause.

- Options to acquire 451,050 shares granted as incentives to employees during the year ended December 31, 2000. These options were granted at exercise prices ranging from \$9.13 to \$25.06 per share (market price at the date of grant) and vest equally over a period of three to five years.

Stock option activity during the years ended December 31, 1999 and 2000 consisted of the following:

	1999		2000	
	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE PER SHARE	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE PER S
Stock options outstanding, beginning of year...	--	\$ --	2,831,591	\$22.
1999 Options granted (per share: \$15.00 to \$23.00).....	2,834,091	22.56	--	
2000 Options granted (per share: \$9.13 to \$25.06).....	--	--	451,050	16.
Options forfeited.....	2,500	23.00	19,250	23.
Options exercised.....	--		--	
	=====	=====	=====	=====
Stock options outstanding, end of year.....	2,831,591	\$22.56	3,263,391	\$21.
	=====	=====	=====	=====
Stock options exercisable, end of year.....	552,273	\$23.00	1,263,785	\$22.
	=====	=====	=====	=====
Options available for grant, end of year.....	1,368,409	--	936,609	
	=====		=====	

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### ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table summarizes information concerning currently outstanding and exercisable options:

EXERCISE PRICE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$ 9.13	240,000	5.0	\$ 9.13	--	\$ 9.13
\$15.00	283,500	5.0	\$15.00	94,500	\$15.00
\$18.00	58,500	5.0	\$18.00	11,700	\$18.00
\$23.00	2,474,791	5.0	\$23.00	1,157,585	\$23.00
\$24.88	206,100	5.0	\$24.88	--	\$24.88
\$25.06	500	5.0	\$25.06	--	\$25.06
	-----			-----	

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3,263,391  
=====

1,263,785  
=====

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations, in accounting for its stock option plan. Accordingly, no compensation cost has been recognized for options granted at or above fair market value at the time of grant. For the grants that were made at an option price lower than fair market value at the time of grant, compensation expense of \$132,000 was recognized in the fourth quarter of 1999 (the first quarter of the vesting period) and \$529,000 for the year ended December 31, 2000. The options granted at below fair market value at the date of grant were granted upon conversion of the Company's Long Term Incentive Plan (LTIP) in 1999. The Company recognized compensation expense under the LTIP of \$338,000 during the year ended December 31, 1999 and \$400,000 during the year ended December 31, 1998. All amounts expensed prior to the conversion of the LTIP (\$738,000) are netted against the total of the below market option compensation expense to arrive at the expense to be recognized over the vesting period of such options.

Had the Company chosen to adopt the provisions of Statement of Financial Accounting Standards No. 123, and recognized compensation cost based upon the fair value of all options granted (including those granted at or above fair market value) at the date of grant, the Company's net loss (in thousands) and net loss per share for the years ended December 31, 1999 and 2000 would have been as follows:

	AS REPORTED		PROFORMA	
	1999	2000	1999	2000
Net loss to common stockholders.....	\$ (70,779)	\$ (22,038)	\$ (72,403)	\$ (29,395)
Net loss per common share.....	\$ (7.96)	\$ (1.32)	\$ (9.09)	\$ (1.75)

The fair value of the options granted were used to calculate the pro forma net income and net income per common share above, on the date of grant, using a binomial option-pricing model with the following weighted average assumptions:

	1999	2000
Dividend yield.....	--	--
Expected volatility.....	50.00	121.00%
Risk free interest rate.....	6.11%	5.87%
Expected life (in months).....	60	60
Weighted average fair value of grants.....	\$12.03	\$ 13.99

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	Q-1	Q-2	Q-3	Q-4	YEAR TO DATE
	-----	-----	-----	-----	-----
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
2000					
Net revenues.....	\$16,218	\$ 19,169	\$ 18,045	\$20,010	\$ 73,442
Operating loss.....	(2,921)	(851)	(901)	(963)	(5,636)
Net loss.....	(6,190)	(4,185)	(6,295)	(5,368)	(22,038)
Net loss per common share.....	(0.37)	(0.25)	(0.38)	(0.32)	(1.32)
1999					
Net revenues.....	\$11,123	\$ 15,512	\$ 15,803	\$17,570	\$ 60,008
Operating loss.....	(4,294)	(9,403)	(34,626)	(755)	(49,078)
Net loss.....	(9,278)	(19,121)	(38,768)	(3,612)	(70,779)
Pro forma net loss.....	(5,998)	(15,341)	(37,308)	(4,749)	(63,396)
Pro forma net loss per common share...	(1.16)	(2.96)	(7.20)	(0.29)	(7.96)

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The response to this item is contained, in part, under the caption "Executive Officers of the Company" in Part I, Item 4 hereof, and the remainder is contained in the Company's Proxy Statement for its 2001 Annual Meeting of Shareholders (the "2001 Proxy Statement") under the caption "Election of Directors" and is incorporated herein by reference.

The information required pursuant to Item 405 of Regulation S-K will be contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement, and such is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The response to this item is contained in the Company's 2001 Proxy Statement under the captions "Directors Compensation," "Executive Compensation," and "Other Agreements," and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The response to this item is contained in the Company's 2001 Proxy Statement under the caption "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The response to this item is contained in the Company's 2001 Proxy Statement under the caption "Certain Relationships and Related Transactions" and is incorporated herein by reference.

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## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

#### (a)1. Financial Statements

The following financial statements are included in Item 8:

ACME Communications, Inc. and Subsidiaries:

- Consolidated Balance Sheets as of December 31, 2000 and December 31, 1999.
- Consolidated Statements of Operations for the years ended December 31, 2000, December 31, 1999 and December 31, 1998.
- Consolidated Statements of Members' Capital for the years ended December 31, 2000, December 31, 1999 and 1998.
- Consolidated Statements of Cash Flows for the years ended December 31, 2000, December 31, 1999 and December 31, 1998.
- Notes to the Consolidated Financial Statements.

#### (a)2. Financial Statement Schedules

The following financial statement schedules are included in Item 14 (d):

Schedule I -- Condensed Financial Information of ACME Communications, Inc. (Parent Company):

- Balance Sheet as of December 31, 2000 and December 31, 1999.
- Statements of Operations for the years ended December 31, 2000, December 31, 1999 and December 31, 1998
- Statements of Cash Flows for the years ended December 31, 2000, December 31, 1999 and December 31, 1998
- Notes to the Condensed Financial Statements

Schedule II -- Valuation and Qualifying Accounts

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto, included in Item 8 herewith.

#### (a)3. Exhibits

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
2.1(10)	Form of Agreement and Plan of Reorganization Relating to the Capitalization of ACME Communications, Inc. by and among the parties listed in the signature pages thereof.
2.2(10)	Form Exchange Agreement among ACME Communications, Inc. and the parties listed on the signature pages thereto.



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- 2.3(10) Form of Agreement of Merger by and among ACME Television Holdings, LLC, ACME Communications, Inc. and ACME Communications Merger Subsidiary, LLC.
- 3.1(10) Form of Restated Certificate of Incorporation of ACME Communications, Inc., a Delaware corporation.
- 3.2(10) Form of Restated Bylaws of ACME Communications, Inc.
- 4.1(1) Indenture, dated September 30, 1997, by and among ACME Intermediate Holdings, LLC and ACME Intermediate Finance, Inc., as Issuers, and Wilmington Trust Company.

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EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
4.2(1)	Indenture, dated September 30, 1997, by and among ACME Television, LLC and ACME Finance Corporation, as issuers, the Guarantors named therein, and Wilmington Trust Company.
4.3(4)	First Supplemental Indenture, dated February 11, 1998, by and among ACME Television, LLC and ACME Finance Corporation, the Guarantors named therein, and Wilmington Trust Company.
4.4(4)	Second Supplemental Indenture, dated March 13, 1998, by and among ACME Television, LLC and ACME Finance Corporation, the Guarantors named therein, and Wilmington Trust Company.
4.5(6)	Third Supplemental Indenture, dated August 21, 1998, by and among ACME Television, LLC and ACME Finance Corporation, as issuers, the Guarantors named therein, and Wilmington Trust Company.
10.1(9)	Asset Purchase Agreement, dated April 23, 1999, by and among Paxson Communications Corporation, Paxson Communications License Company, LLC, Paxson Communications of Green Bay-14, Inc., Paxson Communications of Dayton-26, Inc., Paxson Dayton License, Inc., Paxson Communications of Decatur-23, Inc., Paxson Decatur License, Inc., ACME Television of Ohio, LLC, ACME Television Licenses of Ohio, LLC, ACME Television of Wisconsin, LLC, ACME Television Licenses of Wisconsin, LLC, ACME Television of Illinois, LLC and ACME Television Licenses of Illinois, LLC for WDPX(TV), Springfield, Ohio, WPXG(TV), Suring, WI and WPXU(TV), Decatur, IL.
10.2(3)	Time Brokerage Agreement, dated April 23, 1999, by and among Paxson Communications License Company, LLC, Paxson Communications of Green Bay-14, Inc., and ACME Television of Wisconsin, LLC for Station WPXG-TV, Suring, Wisconsin.
10.3(3)	Time Brokerage Agreement, dated April 23, 1999, by and among Paxson Decatur License, Inc., Paxson Communications of Decatur-23, Inc., and ACME Television of Illinois, LLC for Station WPXU-TV, Decatur, Illinois.
10.4(3)	Time Brokerage Agreement, dated April 23, 1999, by and among Paxson Dayton License, Inc., Paxson Communications of Dayton-26, Inc., and ACME Television of Ohio, LLC for Station WDPX-TV, Springfield, Ohio.
10.5(10)	Amendment to Asset Purchase Agreement, dated July 30, 1999, by and between ACME Television of New Mexico, LLC and ACME Television Licenses of New Mexico, LLC and Ramar Communications II, Ltd., with respect to television station KASY-TV, Santa Fe, New Mexico.
10.6(8)	Asset Purchase Agreement, dated February 19, 1999, by and

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- between ACME Television of New Mexico, LLC and ACME Television Licenses of New Mexico, LLC and Ramar Communications II, Ltd., with respect to television station KASY-TV, Albuquerque, New Mexico.
- 10.7(10) Station Affiliation Agreement, dated March 15, 1998, by and between ACME Television Holdings, LLC and The WB Television Network Partners, L.P.
- 10.8(1) Station Affiliation Agreement, dated September 24, 1997, by and between ACME Holdings of St. Louis, LLC and The WB Television Network Partners, L.P.
- 10.9(3) Management Agreement between Edward J. Kopljar and ACME Television Licenses of Missouri, Inc.
- 10.10(3) Station Affiliation Agreement, dated August 18, 1997, by and between ACME Holdings of Knoxville, LLC and The WB Television Network Partners, L.P.
- 10.11(3) Station Affiliation Agreement, dated June 10, 1997, by and between ACME Holdings of Oregon, LLC and The WB Television Network Partners, L.P.

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EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
10.12(10)	Joint Sales Agreement by and between ACME Television Holdings, LLC and DP Media, Inc., dated April 23, 1999.
10.13(10)	Option Agreement, dated April 23, 1999, by and between ACME Television Holdings, LLC and DP Media, Inc.
10.14(1)	Station Affiliation Commitment Letter dated August 21, 1997, to ACME Communications, Inc. from The WB Television Network.
10.15(10)	ACME Communications, Inc. 1999 Stock Incentive Plan.
10.16(10)	Form of Employment Agreement, as amended, by and between ACME Communications, Inc. and Doug Gealy.
10.17(10)	Form of Employment Agreement, as amended, by and between ACME Communications, Inc. and Tom Allen.
10.18(10)	Consulting Agreement, as amended, by and between ACME Communications, Inc. and Jamie Kellner.
10.19(1)	First Amended and Restated Credit Agreement, dated as of December 2, 1997, by and among ACME Television, LLC, the Lenders named therein and Canadian Imperial Bank of Commerce, New York Agency, as agent for the Lenders.
10.20(3)	Securities and Pledge Agreement, dated December 2, 1997, by and between ACME Subsidiary Holdings III, LLC and Canadian Imperial Bank of Commerce, as agent for the benefit of CIBC, Inc. and other financial institutions.
10.21(10)	Amendment No. 1 to First Amended and Restated Credit Agreement, dated June 30, 1998.
10.22(10)	Amendment No. 2 to First Amended and Restated Credit Agreement, dated June 30, 1998.
10.23(10)	Third Amendment to First Amended and Restated Credit Agreement, dated March 1, 1999.
10.24(10)	Fourth Amendment to First Amended and Restated Credit Agreement, dated April 23, 1999.
10.25(10)	Fifth Amendment to Credit Agreement, dated September 1999.
10.26*	Sixth Amendment to Credit Agreement, dated December 29, 1999.
10.27*	Seventh Amendment to Credit Agreement, dated December 29,

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- 2000.
- 10.28(3) Form of Guaranty by and among ACME subsidiaries, Canadian Imperial Bank of Commerce, as agent, and the Lenders under the First Amended and Restated Credit Agreement.
  - 10.29(3) Form of Security and Pledge Agreement by and among ACME subsidiaries, Canadian Imperial Bank of Commerce, as agent, and the Lenders under the First Amended and Restated Credit Agreement.
  - 10.30(10) Form of Registration Rights Agreement, by and among ACME Communications, Inc. and the parties on the signature pages thereto.
  - 10.31(1) Note Purchase Agreement, dated September 24, 1997, by and among ACME Intermediate Holdings, LLC, ACME Intermediate Finance, Inc. and CIBC Wood Gundy Securities Corp., as Initial Purchaser.
  - 10.32(2) Note Purchase Agreement, dated September 24, 1997, by and among ACME Television, LLC, ACME Finance Corporation, CIBC Wood Gundy Securities Corp. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.
  - 10.33(1) Securities Pledge Agreement, dated September 30, 1997, by and between ACME Intermediate Holdings, LLC and ACME Intermediate Finance, Inc., as Pledgers, and Wilmington Trust Company, as Trustee.

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EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
10.34(10)	Employment Agreement, dated September 27, 1999 by and between ACME Communications, Inc. and Ed Danduran.
10.35(10)	Amended and Restated Investment and Loan Agreement, dated as of June 17, 1999, by and among ACME Television Holdings, LLC and Jamie Kellner, Douglas Gealy, Thomas Allen, CEA Capital Partners USA, L.P. CEA ACME, Inc., Alta Communications VI, L.P., Alta Subordinated Debt Partners III, L.P., Alta-Comm S by S, LLC, Alta ACME, Inc., BancBoston Ventures, Inc., CEA Inc. and Alta Inc.
10.36(10)	Form of Convertible Debenture of ACME Television Holdings, LLC. Due June 30, 2008.
10.37(10)	Station Affiliation Agreement, dated April 9, 1998, by and between ACME Television Licenses of Utah LLC and The WB Television Network.
10.38(10)	Station Affiliation Agreement, dated March 4, 1999, by and between ACME Television Licenses of New Mexico LLC and The WB Television Network.
10.39(10)	Station Affiliation Agreement, dated May 1, 1999, by and between ACME Television Licenses of Wisconsin LLC and The WB Television Network.
10.40(10)	Station Affiliation Agreement, dated May 1, 1999, by and between ACME Television Licenses of Illinois LLC and The WB Television Network.
10.41(10)	Station Affiliation Agreement, dated May 1, 1999, by and between ACME Television Licenses of Ohio LLC and The WB Television Network.
10.42(10)	Bridge Loan Agreement, dated April 23, 1999, by and among ACME Television Holdings, LLC, Alta Communications VI, L.P.,

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- Alta Comm S by S, LLC, Alta Subordinated Debt Partners III, L.P., BancBoston Investments Inc., CEA Capital Partners USA, L.P., CEA Capital Partners USA CI, L.P., TCW Shared Opportunity Fund III, L.P., Shared Opportunity Fund IIB, LLC and TCW Leveraged Income Trust II, L.P.
- 10.43(10) Form of Stockholder and Voting Agreement by and among ACME Communications Inc. and the parties on the signature pages thereto.
- 10.44(10) Form of Voting Agreement by and among ACME Communications Inc. and the parties on the signature pages thereto.
- 10.45(11) Second Amendment to Asset Purchase Agreement, dated November 1, 1999, by and between ACME Television of New Mexico, LLC and Ramar Communications II, Ltd., with respect to television station KASY-TV, Santa Fe, New Mexico.
- 10.46(11) Time Brokerage Agreement dated November 1, 1999, by and between Ramar Communications, II, Ltd. and ACME Television of New Mexico, LLC.
- 21.0(11) Subsidiaries of Registrant.

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\* Filed herewith.

- (1) Incorporated by reference to the Registration Statement for ACME Intermediate Holdings, LLC on Form S-4, File No. 333-4027, filed on November 14, 1997.
- (2) Incorporated by reference to the Registration Statement for ACME Television, LLC on Form S-4, File No. 333-40281, filed on November 14, 1997.
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- (4) Incorporated by reference to ACME Intermediate Holdings LLC's Quarterly Report on Form 10-Q for the period ending March 31, 1998.
- (5) Incorporated by reference to ACME Intermediate Holdings LLC's Quarterly Report on Form 10-Q for the period ending June 30, 1998.

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- (6) Incorporated by reference to ACME Intermediate Holdings LLC's Quarterly Report on Form 10-Q for the period ending September 30, 1998.
- (7) Incorporated by reference to ACME Intermediate Holdings LLC's Annual Report on Form 10-K for the for the year ended December 31, 1998.
- (8) Incorporated by reference to ACME Television Holdings LLC's Quarterly Report on Form 10-Q for the period ending March 31, 1999.
- (9) Incorporated by reference to ACME Intermediate Holdings LLC's Report on Form 8-K filed May 7, 1999.
- (10) Incorporated by reference to the Registration Statement for ACME Communications, Inc. on Form S-1, File No. 333-84191, filed on September 29, 1999.
- (11) Incorporated by reference to ACME Communications, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1999.

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(b) Reports on Form 8-K.

The Company filed no reports on Form 8-K during the three months ended December 31, 2000.

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SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ACME Communications, Inc.

March 30, 2001

-----  
 Thomas D. Allen  
 Executive Vice President and Chief  
 Financial Officer and Director  
 (Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

SIGNATURE -----	CAPACITY -----	DATE -----
/s/ JAMIE KELLNER ----- Jamie Kellner	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 30,
/s/ DOUGLAS GEALY ----- Douglas Gealy	President and Chief Operating Officer and Director	March 30,
/s/ THOMAS D. ALLEN ----- Thomas D. Allen	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer) and Director	March 30,
/s/ JAMES COLLIS ----- James Collis	Director	March 30,
/s/ THOMAS EMBRESCIA ----- Thomas Embrescia	Director	March 30,
/s/ BRIAN MCNEILL ----- Brian McNeill	Director	March 30,
/s/ MICHAEL ROBERTS ----- Michael Roberts	Director	March 30,

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/s/ DARRYL SCHALL

Director

March 30,

-----  
Darryl Schall

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SCHEDULE I

ACME COMMUNICATIONS, INC.  
(PARENT COMPANY)

CONDENSED FINANCIAL INFORMATION  
BALANCE SHEETS

	DECEMBER 31,	
	1999	2000
	-----	-----
	(IN THOUSANDS)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents.....	\$ 19,834	\$ 20,690
	-----	-----
Total current assets.....	19,834	20,690
Notes Receivable and accrued interest.....	112	--
Investment in and advances to subsidiaries.....	86,593	65,580
Intangible assets, net.....	20,840	19,784
	-----	-----
Total assets.....	\$127,379	\$106,054
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable.....	\$ 240	\$ 123
Accrued liabilities.....	89	11
Deferred income taxes.....	177	594
	-----	-----
Total current liabilities.....	506	728
Other liabilities.....	38	--
	-----	-----
Total liabilities.....	544	728
	-----	-----
Stockholders' equity:		
Preferred stock, \$.01 par value; 10,000,000 shares authorized, no shares issued and outstanding.....	--	--
Common stock, \$.01 par value; 16,750,000 shares issued outstanding at December 31, 1999 and December 31, 2000.....	168	168
Additional paid-in capital.....	130,279	130,279
Accumulated deficit.....	(3,612)	(25,650)
	-----	-----
Total stockholders' equity.....	126,835	105,326
	-----	-----
Total liabilities and stockholders' equity.....	\$127,379	\$106,054
	=====	=====

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See accompanying notes to the condensed financial statements.

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SCHEDULE I (CONTINUED)

ACME COMMUNICATIONS, INC.  
(PARENT COMPANY)

CONDENSED FINANCIAL INFORMATION  
STATEMENTS OF OPERATIONS

	FOR THE YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	(IN THOUSANDS)		
Administrative expense.....	\$ --	\$ (16)	\$ (233)
Amortization of intangibles.....	--	(264)	(1,055)
Total operation expenses.....	--	(280)	(1,288)
Interest income.....	20	418	1,249
Interest expense.....	(2,575)	(3,192)	--
Other income (expenses).....	(13)	--	--
Loss before equity in the net loss of sub-sidiaries and income taxes.....	(2,568)	(3,054)	(39)
Equity in the net loss of subsidiaries.....	(19,372)	(67,548)	(21,405)
Loss before income taxes.....	(21,940)	(70,602)	(21,444)
Income tax expense.....	--	(177)	(594)
Net loss.....	\$ (21,940)	\$ (70,779)	\$ (22,038)

See accompanying notes to the condensed financial statements.

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SCHEDULE I (CONTINUED)

ACME COMMUNICATIONS, INC.  
(PARENT COMPANY)

CONDENSED FINANCIAL INFORMATION  
STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL	ACCUMULATED	T
	SHARES	AMOUNT	PAID-IN CAPITAL	DEFICIT	STOCK EQ
	(IN THOUSANDS)				
Balance at December 31, 1997.....	4,074	\$ 41	\$ 23,744	\$ (7,479)	\$ 1
Issuance of common stock, net.....	1,106	11	7,036	--	
Net Loss.....	--	--	--	(21,940)	(2)

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Balance at December 31, 1998.....	5,180	52	30,780	(29,419)	
Issuance of common stock for 100% of the members' units of ACME Television Holdings, LLC.....	6,570	66	91,742	--	9
Initial public offering.....	5,000	50	104,343	--	10
Termination of non-taxable status.....	--	--	(96,586)	96,586	
Net loss.....	--	--	--	(70,779)	(7)
Balance at December 31, 1999.....	16,750	168	130,279	(3,612)	12
Equity-based compensation.....	--	--	529	--	
Net loss.....	--	--	--	(22,038)	(2)
Balance at December 31, 2000.....	16,750	\$168	\$130,808	\$(25,650)	\$10

See accompanying notes to the condensed financial statements.

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SCHEDULE I (CONTINUED)

ACME COMMUNICATIONS, INC.  
(PARENT COMPANY)

CONDENSED FINANCIAL INFORMATION  
STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED DECEMBER 31,		
	1998	1999	2000
	(IN THOUSANDS)		
Cash flows from operating activities:			
Net loss.....	\$ (21,940)	\$ (70,779)	\$ (22,038)
Adjustments to reconcile net loss to net cash: provided by operating activities:			
Amortization.....	--	264	1,056
Amortization of debt issuance costs.....	122	492	--
Equity in net loss of subsidiary.....	19,372	67,548	21,405
Deferred taxes.....	--	177	417
Changes in assets and liabilities:			
(Increase) decrease in accounts receivables, net.....	(20)	119	112
Decrease in prepaid expenses.....	25	--	--
Increase (decrease) in accounts payable.....	--	240	(117)
Increase (decrease) in other current liabilities.....	2	1,692	(38)
Increase (decrease) in accrued expenses.....	2,476	335	(78)
Net cash provided by operating activity.....	37	88	719
Cash flows from investing activities:			
Purchase of station interests.....	--	(62,655)	--
Investments in and advances to subsidiaries.....	7	(22,932)	137
Net cash provided by (used in) investing activities.....	7	(85,587)	137



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Cash flows from financing activities:

Initial public offering, net of expenses.....	--	105,285	--
	-----	-----	-----
Net cash provided by financing activities.....	--	105,285	--
Net increase in cash.....	44	19,786	856
Cash at beginning of period.....	4	48	19,834
	-----	-----	-----
Cash at end of period.....	\$ 48	\$ 19,834	\$ 20,690
	=====	=====	=====

Supplemental disclosures of cash flow information:

Non-cash transactions:

Issuance of equity as purchase consideration.....	\$ 7,047	\$ --	\$ --
Conversion of convertible debt.....	\$ --	\$ 29,240	\$ --
Acquisition of minority interest of ACME Intermediate Holdings, LLC.....	\$ --	\$ 21,250	\$ --
	=====	=====	=====

See accompanying notes to the condensed financial statements.

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ACME COMMUNICATIONS, INC.  
(PARENT COMPANY)

NOTES TO CONDENSED FINANCIAL INFORMATION

1. FORMATION AND BASIS OF PRESENTATION

Pursuant to the rules and regulations of the Securities and Exchange Commission, the Condensed Financial Statements of ACME Communications, Inc., do not include all of the information and notes normally include with financial statements prepared in accordance with generally accepted accounting principles. It is therefore suggested that these Condensed Financial Statements be read in conjunction with the Consolidated Financial Statements and Notes thereto included at Item 8 of this filing.

ACME Communications, Inc. was formed on July 23, 1999, in preparation for and in conjunction with an initial public offering of its stock.

On September 27, 1999, the Board of Advisors of ACME Television Holdings, LLC and its members approved a merger and reorganization (the "Reorganization"), whereby ACME Communications became the direct parent of ACME Television Holdings. As a result of the Reorganization, ACME Communications is the ultimate parent of ACME Intermediate Holdings, LLC, and its wholly-owned subsidiary ACME Television, LLC. All transactions contemplated as part of the Reorganization closed on October 5, 1999.

Among the significant transactions of the Reorganization were the exchange of shares of the Company's common stock for members' units, management carry units and convertible debt of ACME Television Holdings. The common stock exchanged for members' units in ACME Television Holdings was recorded at historical cost. The management carry units were treated as a variable compensation plan. As the number of shares of common stock issued to the holders of the management carry units were fixed and fully vested, compensation expense was recorded for the difference between the fair value of the shares issued and the MCU expense previously recorded. The convertible debt was converted pursuant to its original conversion terms, and accordingly, no gain or loss was recognized. Also, the Company acquired the minority interest in ACME

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Intermediate Holdings for 923,938 shares of the Company's common stock. The acquisition of the minority interest was accounted for at fair market value.

The financial statements give effect to the exchange of common stock for members' units for the years ended December 31, 1998 and 1999.

On October 5, 1999, the Company completed its initial public offering of 5,000,000 shares of common stock at \$23 per share, before underwriters' discounts and other issuance costs. The Company received net proceeds of approximately \$105 million.

The accompanying condensed financial statements are presented for ACME Communications, Inc.

### 2. CASH DIVIDENDS

There have been no cash dividends declared by the Company.

### 3. INTANGIBLE ASSET

The acquisition of ACME Intermediate Holdings' minority interest during the Reorganization in October of 1999 was accounted for at fair market value. The difference between the fair market value and the carrying value of the minority interest was \$21,103,000 and was recorded as an intangible asset with a useful life of 20 years. Amortization expense for the year ended December 31, 1999 and 2000 was \$264,000 and \$1,055,000, respectively.

### 4. LONG-TERM DEBT

There are no cash interest payments due on ACME Intermediate Holdings, LLC's Senior Secured Discount Notes until March 31, 2003. There are no cash interest payments due on ACME Television, LLC's

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Senior Discount Notes until March 31, 2001. At December 31, 2000, the Company has \$4,759,000 included in accrued liabilities for the interest payment due March 31, 2001.

### 5. RECLASSIFICATIONS

Certain amounts previously reported for 1998 and 1999 have been reclassified to conform to the 2000 financial statement presentation.

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ACME COMMUNICATIONS, INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS  
FOR THE YEARS ENDED DECEMBER 31, 1998 AND DECEMBER 31, 1999 AND DECEMBER 31,  
2000

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO EXPENSE	ADDITIONS ACQUIRED IN PURCHASE TRANSACTIONS	DEDUCTIONS	BAL E P
ALLOWANCE FOR DOUBTFUL ACCOUNTS					

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Year ended December 31, 1998.....	51,000	224,000	280,000	--	5
Year ended December 31, 1999.....	555,000	485,000	--	324,000	7
Year ended December 31, 2000.....	716,000	562,000	--	269,000	1,0

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EXHIBIT INDEX

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
2.1(10)	Form of Agreement and Plan of Reorganization Relating to the Capitalization of ACME Communications, Inc. by and among the parties listed in the signature pages thereof.
2.2(10)	Form Exchange Agreement among ACME Communications, Inc. and the parties listed on the signature pages thereto.
2.3(10)	Form of Agreement of Merger by and among ACME Television Holdings, LLC, ACME Communications, Inc. and ACME Communications Merger Subsidiary, LLC.
3.1(10)	Form of Restated Certificate of Incorporation of ACME Communications, Inc., a Delaware corporation.
3.2(10)	Form of Restated Bylaws of ACME Communications, Inc.
4.1(1)	Indenture, dated September 30, 1997, by and among ACME Intermediate Holdings, LLC and ACME Intermediate Finance, Inc., as Issuers, and Wilmington Trust Company.
4.2(1)	Indenture, dated September 30, 1997, by and among ACME Television, LLC and ACME Finance Corporation, as issuers, the Guarantors named therein, and Wilmington Trust Company.
4.3(4)	First Supplemental Indenture, dated February 11, 1998, by and among ACME Television, LLC and ACME Finance Corporation, the Guarantors named therein, and Wilmington Trust Company.
4.4(4)	Second Supplemental Indenture, dated March 13, 1998, by and among ACME Television, LLC and ACME Finance Corporation, the Guarantors named therein, and Wilmington Trust Company.
4.5(6)	Third Supplemental Indenture, dated August 21, 1998, by and among ACME Television, LLC and ACME Finance Corporation, as issuers, the Guarantors named therein, and Wilmington Trust Company.
10.1(9)	Asset Purchase Agreement, dated April 23, 1999, by and among Paxson Communications Corporation, Paxson Communications License Company, LLC, Paxson Communications of Green Bay-14, Inc., Paxson Communications of Dayton-26, Inc., Paxson Dayton License, Inc., Paxson Communications of Decatur-23, Inc., Paxson Decatur License, Inc., ACME Television of Ohio, LLC, ACME Television Licenses of Ohio, LLC, ACME Television of Wisconsin, LLC, ACME Television Licenses of Wisconsin, LLC, ACME Television of Illinois, LLC and ACME Television Licenses of Illinois, LLC for WDPX(TV), Springfield, Ohio, WPXG(TV), Suring, WI and WPXU(TV), Decatur, IL.
10.2(3)	Time Brokerage Agreement, dated April 23, 1999, by and among Paxson Communications License Company, LLC, Paxson Communications of Green Bay-14, Inc., and ACME Television of Wisconsin, LLC for Station WPXG-TV, Suring, Wisconsin.
10.3(3)	Time Brokerage Agreement, dated April 23, 1999, by and among Paxson Decatur License, Inc., Paxson Communications of Decatur-23, Inc., and ACME Television of Illinois, LLC for Station WPXU-TV, Decatur, Illinois.

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- 10.4(3) Time Brokerage Agreement, dated April 23, 1999, by and among Paxson Dayton License, Inc., Paxson Communications of Dayton-26, Inc., and ACME Television of Ohio, LLC for Station WDPX-TV, Springfield, Ohio.
- 10.5(10) Amendment to Asset Purchase Agreement, dated July 30, 1999, by and between ACME Television of New Mexico, LLC and ACME Television Licenses of New Mexico, LLC and Ramar Communications II, Ltd., with respect to television station KASY-TV, Santa Fe, New Mexico.

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EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
10.6(8)	Asset Purchase Agreement, dated February 19, 1999, by and between ACME Television of New Mexico, LLC and ACME Television Licenses of New Mexico, LLC and Ramar Communications II, Ltd., with respect to television station KASY-TV, Albuquerque, New Mexico.
10.7(10)	Station Affiliation Agreement, dated March 15, 1998, by and between ACME Television Holdings, LLC and The WB Television Network Partners, L.P.
10.8(1)	Station Affiliation Agreement, dated September 24, 1997, by and between ACME Holdings of St. Louis, LLC and The WB Television Network Partners, L.P.
10.9(3)	Management Agreement between Edward J. Kopljar and ACME Television Licenses of Missouri, Inc.
10.10(3)	Station Affiliation Agreement, dated August 18, 1997, by and between ACME Holdings of Knoxville, LLC and The WB Television Network Partners, L.P.
10.11(3)	Station Affiliation Agreement, dated June 10, 1997, by and between ACME Holdings of Oregon, LLC and The WB Television Network Partners, L.P.
10.12(10)	Joint Sales Agreement by and between ACME Television Holdings, LLC and DP Media, Inc., dated April 23, 1999.
10.13(10)	Option Agreement, dated April 23, 1999, by and between ACME Television Holdings, LLC and DP Media, Inc.
10.14(1)	Station Affiliation Commitment Letter dated August 21, 1997, to ACME Communications, Inc. from The WB Television Network.
10.15(10)	ACME Communications, Inc. 1999 Stock Incentive Plan.
10.16(10)	Form of Employment Agreement, as amended, by and between ACME Communications, Inc. and Doug Gealy.
10.17(10)	Form of Employment Agreement, as amended, by and between ACME Communications, Inc. and Tom Allen.
10.18(10)	Consulting Agreement, as amended, by and between ACME Communications, Inc. and Jamie Kellner.
10.19(1)	First Amended and Restated Credit Agreement, dated as of December 2, 1997, by and among ACME Television, LLC, the Lenders named therein and Canadian Imperial Bank of Commerce, New York Agency, as agent for the Lenders.
10.20(3)	Securities and Pledge Agreement, dated December 2, 1997, by and between ACME Subsidiary Holdings III, LLC and Canadian Imperial Bank of Commerce, as agent for the benefit of CIBC, Inc. and other financial institutions.
10.21(10)	Amendment No. 1 to First Amended and Restated Credit Agreement, dated June 30, 1998.
10.22(10)	Amendment No. 2 to First Amended and Restated Credit Agreement, dated June 30, 1998.

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- 10.23(10) Third Amendment to First Amended and Restated Credit Agreement, dated March 1, 1999.
- 10.24(10) Fourth Amendment to First Amended and Restated Credit Agreement, dated April 23, 1999.
- 10.25(10) Fifth Amendment to Credit Agreement, dated September 1999.
- 10.26\* Sixth Amendment to Credit Agreement, dated December 29, 1999.
- 10.27\* Seventh Amendment to Credit Agreement, dated December 29, 2000.
- 10.28(3) Form of Guaranty by and among ACME subsidiaries, Canadian Imperial Bank of Commerce, as agent, and the Lenders under the First Amended and Restated Credit Agreement.
- 10.29(3) Form of Security and Pledge Agreement by and among ACME subsidiaries, Canadian Imperial Bank of Commerce, as agent, and the Lenders under the First Amended and Restated Credit Agreement.

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EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
10.30(10)	Form of Registration Rights Agreement, by and among ACME Communications, Inc. and the parties on the signature pages thereto.
10.31(1)	Note Purchase Agreement, dated September 24, 1997, by and among ACME Intermediate Holdings, LLC, ACME Intermediate Finance, Inc. and CIBC Wood Gundy Securities Corp., as Initial Purchaser.
10.32(2)	Note Purchase Agreement, dated September 24, 1997, by and among ACME Television, LLC, ACME Finance Corporation, CIBC Wood Gundy Securities Corp. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.
10.33(1)	Securities Pledge Agreement, dated September 30, 1997, by and between ACME Intermediate Holdings, LLC and ACME Intermediate Finance, Inc., as Pledgers, and Wilmington Trust Company, as Trustee.
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- Television Network.
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- 21.0(11) Subsidiaries of Registrant.

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29, 1999.

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