

ACME COMMUNICATIONS INC  
Form 10-Q  
August 14, 2007

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

---

**FORM 10-Q**

---

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended June 30, 2007**

**Commission File Number: 000-27105**

**ACME COMMUNICATIONS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware** **33-0866283**  
(State or other jurisdiction of (I.R.S. employer  
incorporation or organization) 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:**

Title of each class	Name of each exchange on which registered
Common Stock, par value \$.01 per share	The NASDAQ Stock Market, LLC (NASDAQ Global Market)

Indicate by check mark whether the registrant (1) has filed all reports 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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of the last business day of the registrant's most recently completed second fiscal quarter (June 29, 2007), the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$63,878,171 based on a price of \$5.01 per share, as reported on the NASDAQ Stock Market.

As of August 14, 2007, ACME Communications, Inc. had 16,046,763 shares of common stock outstanding.

ACME COMMUNICATIONS, INC.

FORM 10 Q

TABLE OF CONTENTS

	<u>Page</u>
<b>Part I Financial Information</b>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2007 (Unaudited) and December 31, 2006</u>	1
<u>Consolidated Statements of Operations (Unaudited) for the Three Months and Six Months Ended June 30, 2007 and June 30, 2006</u>	2
<u>Consolidated Statement of Stockholders' Equity (Unaudited) for the Six Months Ended June 30, 2007</u>	3
<u>Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2007 and June 30, 2006</u>	4
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	14
Item 4. <u>Controls and Procedures</u>	14
<b>Part II Other Information</b>	
Item 1. <u>Legal Proceedings</u>	15
Item 1A. <u>Risk Factors</u>	15
Item 2. <u>Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities</u>	15
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	15
Item 5. <u>Other Information</u>	15
Item 6. <u>Exhibits</u>	15
<b><u>Signature</u></b>	16

**ACME Communications, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

(in thousands, except share data)

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
	<u>(Unaudited)</u>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 763	\$ 1,113
Restricted cash	50	50
Accounts receivable, net	6,520	7,878
Current portion of programming rights	5,444	5,400
Prepaid expenses and other current assets	296	332
Assets held for sale	5,841	25,429
Total current assets	18,914	40,202
Property and equipment, net	15,813	15,701
Programming rights, net of current portion	11,901	14,715
Goodwill, net	14,721	14,721
Broadcast licenses, net	51,774	51,774
Other assets	483	2,131
Total assets	\$ 113,606	\$ 139,244
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 2,663	\$ 3,261
Accrued liabilities	5,021	5,043
Current portion of programming rights payable	5,888	5,963
Current portion of obligations under lease	48	50
Income taxes payable	1,619	151
Notes payable under revolving credit facility	2,359	36,550
Liabilities held for sale	1,662	6,562
Total current liabilities	19,260	57,580
Programming rights payable, net of current portion	12,679	15,605
Obligations under lease, net of current portion	822	845
Other liabilities	252	33
Deferred income taxes	10,524	9,751
Total liabilities	43,537	83,814
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; 10,000,000 shares authorized, no shares issued or outstanding	--	--
Common stock, \$0.01 par value; 50,000,000 shares authorized, 16,772,415 shares issued and 16,046,763 outstanding at June 30, 2007 and December 31, 2006	168	168
Additional paid-in capital	132,656	132,440
Accumulated deficit	(57,755)	(72,178)
Less: Treasury stock, at cost; 725,652 shares	(5,000)	(5,000)
Total stockholders' equity	70,069	55,430
Total liabilities and stockholders' equity	\$ 113,606	\$ 139,244

See the accompanying notes to the unaudited consolidated financial statements.

**ACME Communications, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**  
**(Unaudited)**

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net revenues	\$ 8,349	\$ 8,707	\$ 15,571	\$ 16,664
Operating expenses:				
Cost of service:				
Programming, including program amortization	3,203	3,346	5,481	6,765
Other costs of service (excluding depreciation and amortization of \$800 and \$917 for the three months ended June 30, 2007 and 2006, respectively, and \$1,584 and \$1,840 for the six months ended June 30, 2007 and 2006, respectively)	1,313	1,340	2,537	2,528
Selling, general and administrative expenses	2,910	2,959	5,844	5,979
Depreciation and amortization	807	924	1,598	1,860
Corporate expenses	1,049	920	1,886	1,801
Operating expenses	9,282	9,489	17,346	18,933
Operating loss	(933)	(782)	(1,775)	(2,269)
Other income (expenses):				
Interest income	6	28	34	33
Gain on sale of assets	--	69	--	69
Equity in losses of unconsolidated affiliates	--	(60)	(251)	(68)
Loss from continuing operations before income taxes and minority interest	(927)	(745)	(1,992)	(2,235)
Income tax expense	(43)	(258)	(79)	(898)
Loss from continuing operations before minority interest	(970)	(1,003)	(2,071)	(3,133)
Minority interest income	--	233	--	463
Loss from continuing operations	(970)	(770)	(2,071)	(2,670)
Discontinued operations (see Note 3):				
Income (loss) from discontinued operations, before income taxes	(880)	4,628	24,723	2,873
Income tax benefit (expense)	42	(98)	(207)	(197)
Income (loss) from discontinued operations	(838)	4,530	24,516	2,676
Net income (loss)	\$ (1,808)	\$ 3,760	\$ 22,445	\$ 6
Net income (loss) per share, basic and diluted:				
Continuing operations	\$ (0.06)	\$ (0.05)	\$ (0.13)	\$ (0.17)
Discontinued operations	(0.05)	0.28	1.53	0.17
Net income (loss) per share	\$ (0.11)	\$ 0.23	\$ 1.40	\$ 0.00
Weighted average basic and diluted common shares outstanding	16,047	16,047	16,047	16,047

See the accompanying notes to the unaudited consolidated financial statements.

**ACME Communications, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity**  
**(Unaudited)**

(In thousands)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2006	16,772	\$ 168	\$ 132,440	\$ (72,178)	\$ (5,000)	\$ 55,430
Stock-based compensation	--	--	216	--	--	216
Cash dividends	--	--	--	(8,022)	--	(8,022)
Net income	--	--	--	22,445	--	22,445
Balance at June 30, 2007	16,772	\$ 168	\$ 132,656	\$ (57,755)	\$ (5,000)	\$ 70,069

See the accompanying notes to the unaudited consolidated financial statements.

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

(In thousands)

	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 22,445	\$ 6
Less: Income from discontinued operations, net of tax	(24,516)	(2,676)
Adjustments to reconcile income to net cash used in operating activities:		
Minority interest income	--	(463)
Equity in losses of unconsolidated affiliates	251	68
Provision for doubtful accounts receivable	121	138
Depreciation and amortization	1,598	1,860
Amortization of program rights	2,827	3,086
Stock-based compensation	209	160
Deferred income taxes	773	822
Changes in assets and liabilities:		
Decrease (increase) in accounts receivables	114	(411)
Increase in prepaid expenses and other current assets	38	10
Decrease in accounts payable	(728)	(570)
Decrease in accrued liabilities	(300)	(384)
Increase (decrease) in income taxes payable	(760)	32
Payments of programming rights payable	(3,054)	(3,209)
Increase in other liabilities	219	33
Net cash used in continuing operating activities	(763)	(1,498)
Cash flows from investing activities:		
Purchase of property and equipment	(1,114)	(226)
Investment in unconsolidated subsidiaries	(155)	--
Proceeds from sale of CarSoup investment	--	1,111
Proceeds from sale of assets - discontinued operations	43,960	18,384
Net cash provided by investing activities	42,691	19,269

See the accompanying notes to the unaudited consolidated financial statements.

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

(In thousands)

	Six Months Ended June 30,	
	2007	2006
Cash flows from financing activities:		
Cash contributions by joint venture partner	\$ --	\$ 332
Borrowings under revolving credit facility	2,359	23,645
Payments on revolving credit facility	(36,550)	(18,400)
Payments on second-lien credit facility	--	(20,000)
Payments on capital lease obligations	(25)	(22)
Payment of dividend	(8,022)	--
Net cash used in financing activities	(42,238)	(14,445)
Increase (decrease) in net cash from continuing operations		