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ACME COMMUNICATIONS INC
Form 10-Q
May 11, 2001

1

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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 MARCH 31, 2001

OR

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

COMMISSION FILE NUMBER: 333-84191

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

| | |
|---|---|
| DELAWARE | 33-0866283 |
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (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)

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

As of May 11, 2001, ACME Communications, Inc. had 16,750,000 shares of
common stock outstanding.

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2

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FORM 10-Q

TABLE OF CONTENTS

ITEM
NUMBER

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ACME Communications, Inc. and Subsidiaries

Consolidated Balance Sheets as of March 31, 2001 and December 31, 2000.....

Consolidated Statements of Operations for the Three Months Ended
March 31, 2001 and March 31, 2000.....

Consolidated Statements of Stockholders' Equity for the Three Months Ended March 31, 2001.....

Consolidated Statements of Cash Flows for the Three Months Ended
March 31, 2001 and March 31, 2000.....

Notes to Consolidated Financial Statements.....

Item 2. Management's Discussion and Analysis of Financial Condition
and Results Of Operations.....

Item 3. Quantitative and Qualitative Disclosures About Market Risk.....

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.....

Item 6. Exhibits and Reports on Form 8-K.....

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | AS OF DECEMBER 31, 2000 ----- | A MAR 2 ----- (UNA |
|---------------------------|--|--------------------------------|
| | (IN THOUSANDS) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 31,037 | \$ |

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| | | |
|---|------------|-------|
| Accounts receivable, net | 15,005 | |
| Current portion of programming rights | 12,477 | |
| Prepaid expenses and other current assets | 2,444 | |
| Deferred income taxes | 1,139 | |
| | ----- | |
| Total current assets | 62,102 | |
| | ===== | |
| Property and equipment, net | 29,471 | |
| Programming rights, net of current portion | 10,984 | |
| Intangible assets, net | 287,748 | 2 |
| Other assets | 9,140 | |
| | ----- | |
| Total assets | \$ 399,445 | \$ 3 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 7,337 | \$ |
| Accrued liabilities | 9,354 | |
| Current portion of programming rights payable | 12,108 | |
| Current portion of obligations under lease | 2,271 | |
| | ----- | |
| Total current liabilities | 31,070 | |
| | ===== | |
| Programming rights payable, net of current portion | 10,205 | |
| Obligations under lease, net of current portion | 7,258 | |
| Other liabilities | 250 | |
| Deferred income taxes | 15,614 | |
| 10 7/8% senior discount notes | 175,000 | 1 |
| 12% senior secured notes | 54,722 | |
| | ----- | |
| Total liabilities | 294,119 | 2 |
| | ===== | ===== |
| 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 | |
| Additional paid-in capital | 130,808 | 1 |
| Accumulated deficit | (25,650) | (|
| | ----- | |
| Total stockholders' equity | 105,326 | |
| | ----- | |
| Total liabilities and stockholders' equity | \$ 399,445 | \$ 3 |
| | ===== | ===== |

See the notes to the consolidated financial statements

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| | FOR THE THREE MONTHS ENDED MARCH 31, | |
|---|---|------------|
| | 2000 | 2001 |
| | (IN THOUSANDS) | |
| Net revenues | \$ 16,218 | \$ 16,481 |
| Operating expenses: | | |
| Station operating expenses | 12,655 | 13,585 |
| Depreciation and amortization | 5,444 | 5,223 |
| Corporate expenses | 908 | 965 |
| Equity-based compensation | 132 | 132 |
| Operating loss | (2,921) | (3,424) |
| Other income (expenses): | | |
| Interest income | 297 | 430 |
| Interest expense | (6,356) | (7,144) |
| Other expense | (1) | (49) |
| Loss before income taxes | (8,981) | (10,187) |
| Income tax benefit | 2,791 | 3,295 |
| Net loss | \$ (6,190) | \$ (6,892) |
| Net loss per share, basic and diluted | \$ (0.37) | \$ (0.41) |
| Basic and diluted weighted average common shares outstanding | 16,750,000 | 16,750,000 |

See the notes to the consolidated financial statements.

4

5

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(IN THOUSANDS)

| | COMMON STOCK | | ADDITIONAL | ACCUMULATED |
|------------------------------|--------------|--------|--------------------|-------------|
| | SHARES | AMOUNT | PAID-IN CAPITAL | DEFICIT |
| Balance at December 31, 2000 | 16,750 | \$168 | \$130,808 | \$(25,650) |
| Equity-based compensation | -- | -- | 132 | -- |
| Net loss | -- | -- | -- | (6,892) |

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| | | | | |
|---------------------------------------|--------------------------|-------------------------|-----------------------------|------------------------------|
| Balance at March 31, 2001 (unaudited) | ----- 16,750 ===== | ----- \$168 ===== | ----- \$130,940 ===== | ----- \$(32,542) ===== |
|---------------------------------------|--------------------------|-------------------------|-----------------------------|------------------------------|

See the notes to the consolidated financial statements.

5

6

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | FOR THE THREE MONTHS ENDED MARCH 31, | |
|--|---|------------|
| | 2000 | 2001 |
| | (IN THOUSANDS) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (6,190) | \$ (6,892) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 5,444 | 5,223 |
| Amortization of program rights | 2,949 | 3,515 |
| Amortization of debt issuance costs | 280 | 387 |
| Amortization of discount on 10 7/8% senior discount notes | 4,280 | -- |
| Amortization of discount on 12% senior secured notes | 1,579 | 1,801 |
| Equity-based compensation | 132 | 132 |
| Deferred taxes | (2,791) | (3,335) |
| Changes in assets and liabilities: | | |
| Decrease in accounts receivables, net | 1,964 | 2,641 |
| (Increase) decrease in prepaid expenses | 141 | (300) |
| Increase in other assets | (1,143) | (172) |
| Increase (decrease) in accounts payable | 273 | (286) |
| Increase (decrease) in accrued expenses | (4,402) | 5,143 |
| Payments for programming rights | (2,988) | (3,531) |
| Increase (decrease) in other liabilities | (210) | 2 |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | (682) | 4,328 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (1,193) | (1,790) |
| Purchases of and deposits for station interests | (322) | -- |
| | ----- | ----- |
| Net cash used in investing activities | (1,515) | (1,790) |
| Cash flows from financing activities: | | |
| Payments on capital lease facilities | (389) | (554) |
| | ----- | ----- |
| Net cash used in financing activities | (389) | (554) |

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| | | |
|---|-----------|-----------|
| Net increase (decrease) in cash | (2,586) | 1,984 |
| Cash at beginning of period | 23,846 | 31,037 |
| | ----- | ----- |
| Cash at end of period | \$ 21,260 | \$ 33,021 |
| | ===== | ===== |
| Cash Payments for: | | |
| Interest | \$ 212 | \$ 258 |
| Taxes | \$ 181 | \$ 157 |
| | ===== | ===== |
| Non-Cash Transactions: | | |
| Program rights in exchange for program rights payable | \$ 586 | \$ 53 |
| | ===== | ===== |

See the notes to the consolidated financial statements.

6

7

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2000 AND MARCH 31, 2001

(1) FORMATION AND DESCRIPTION OF THE BUSINESS

FORMATION

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

DESCRIPTION OF THE BUSINESS

ACME Communications is a holding company with no 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 | RANK | NETWORK AFFILIATION |
|---------|---------|--------------------------|-------|------------------------|
| ----- | ----- | ----- | ----- | ----- |
| KPLR | 11 | St. Louis, MO | 22 | WB |
| KWBP | 32 | Portland, OR | 23 | WB |
| KUWB | 30 | Salt Lake City, UT | 36 | WB |
| KWBQ | 19 | Albuquerque-Santa Fe, NM | 50 | WB |

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| | | | | |
|------|----|-----------------------------------|----|-----|
| KASY | 50 | Albuquerque-Santa Fe, NM | 50 | UPN |
| WBXX | 20 | Knoxville, TN | 56 | WB |
| WTVK | 46 | Ft. Myers-Naples, FL | 63 | WB |
| WBDT | 26 | Dayton, OH | 69 | WB |
| WIWB | 14 | Green Bay-Appleton, WI | 81 | WB |
| WBUI | 23 | Champaign-Springfield-Decatur, IL | 83 | WB |

(2) PRESENTATION OF INTERIM FINANCIAL STATEMENTS

Unless the context requires otherwise, references to the Company refer to ACME Communications, Inc and its wholly-owned subsidiaries. Segment information is not presented because all of the Company's revenues are attributed to a single reportable segment -- television broadcasting.

The accompanying consolidated financial statements for the three months ended March 31, 2001 and 2000 are unaudited and have been prepared in accordance with the generally accepted accounting principles in the United States of America, the instructions to this Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, such financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of the financial position and the results of operations, and cash flows for these

7

8

periods. As permitted under the applicable rules and regulations of the Securities and Exchange Commission, these financial statements do not include all disclosures and footnotes normally included with annual consolidated financial statements, and accordingly, should be read in conjunction with the consolidated financial statements, and the notes thereto, included in the Company's Annual Report on Form 10-K filed with the SEC on March 30, 2001. The results of operations presented in the accompanying financial statements are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

(3) LOSS PER COMMON 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 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.

Stock options outstanding amounting to 3,260,391 shares at March 31, 2001, were not included in the computation of diluted EPS because to do so would have been antidilutive.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's consolidated financial statements and related notes included elsewhere in this

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report on Form 10-Q.

OVERVIEW

We derive our 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.

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 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 or from other program suppliers.

RESULTS OF OPERATIONS

The following table sets forth our calculation of broadcast cash flow and adjusts EBITDA along with a summary of our statement of cash flow data for the periods indicated:

8

9

OTHER OPERATING DATA:

| | THREE MONTHS ENDED MARCH 31, | |
|---|---------------------------------|------------|
| | 2000 | 2001 |
| Broadcast cash flow and adjusted EBITDA(1): | (UNAUDITED) | |
| Operating loss | \$ (2,921) | \$ (3,424) |
| Add back: | | |
| Equity-based compensation | 132 | 132 |
| Depreciation and amortization | 5,444 | 5,223 |
| Amortization of program rights | 2,949 | 3,515 |
| Corporate expenses | 908 | 965 |
| Adjusted program payments(1) | (2,935) | (3,522) |
| Broadcast cash flow | 3,577 | 2,889 |
| Less: | | |

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| | | |
|---------------------------------------|-----------------|------------|
| Corporate expenses | 908 | 965 |
| | ----- | ----- |
| Adjusted EBITDA | \$ 2,669 | \$ 1,924 |
| Broadcast cash flow margin(1) | 22.1% | 17.5% |
| Adjusted EBITDA margin(1) | 16.5% | 11.7% |
| CASH FLOWS PROVIDED BY (USED IN): | (Unaudited) | |
| Operating activities | \$ (682) | \$ 4,328 |
| Investing activities | \$ (1,515) | \$ (1,790) |
| Financing activities | \$ (389) | \$ (554) |

(1) We define:

- o broadcast cash flow as operating income, plus equity-based compensation, depreciation and amortization, time brokerage 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;
- o adjusted EBITDA as broadcast cash flow less corporate expenses;
- o broadcast cash flow margin as broadcast cash flow as a percentage of net revenues; and
- o adjusted EBITDA margin as 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 and 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.

QUARTER ENDED MARCH 31, 2001 VS MARCH 31, 2000

Net revenues increased 2% to \$16.5 million for the first quarter of 2001 compared to \$16.2 million for the same period a year ago. This significantly slower rate of revenue growth compared to recent quarters reflects the adverse impact of the overall soft economy and specifically the lower demand from advertisers that the broadcast industry has been experiencing since the fall of 2000.

Station operating expenses increased 7% to \$13.6 million for first three months of 2001 compared to \$12.7 million for the same period a year ago, reflecting our continued investment in programming, staffing and sales related costs.

Depreciation and amortization decreased 4% to \$5.2 million in the first

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quarter of 2001 compared to \$5.4 million in the same period a year ago. This decrease relates primarily to the sale of the studio building in St. Louis in June 2000 and the several assets acquired in 1997 with our station in Portland reaching full depreciation in the fourth quarter of 2000.

Corporate expenses increased 6% to \$965,000 for the first quarter of 2001 as compared to \$908,000 for the same period a year ago due to increased salary costs and an increase in professional fees.

Equity-based compensation of \$132,000 in the first quarter of 2001 and 2000 relate to stock options issued upon the conversion of our long-term incentive plan awards during our IPO in September of 1999. These options were issued at a price below market value at the date of grant and therefore generate compensation expense over the life of the option.

Interest expense increased to \$7.1 million in the first quarter of 2001 compared to \$6.4 million in the same period a year ago. This increase is primarily due to the increased interest expense on higher accreted principal balances for both our 10 7/8% senior discount and our 12% senior secured notes.

The Company recorded a net income tax benefit of \$3.3 million during the first quarter compared to a benefit of \$2.8 million in the corresponding quarter of 2000. The tax benefit relates to the losses generated during the period reduced by goodwill amortization of approximately \$1.2 million that is not deductible for tax purposes.

Broadcast cash flow for the first quarter decreased 19% to \$2.9 million compared to \$3.6 million in the same period a year ago. This decrease was the result of our slower revenue growth during the current quarter coupled with our continued investment in programming, staffing and sales related costs.

Adjusted EBITDA decreased to \$1.9 million for the first quarter of 2001 compared to \$2.7 million adjusted EBITDA for the first quarter of 2000. This decrease reflects our decreased broadcast cash flow coupled with our increased corporate overhead expenses. Corporate overheads represent approximately 5.9% of net revenues in the first quarter of 2001, as compared to the first quarter of 2000, when corporate overheads represented 5.6% of net revenues.

The Company's net loss for the first quarter was \$6.9 million compared to a net loss for the first quarter of 2000 of \$6.2 million. This \$700,000 increase in the Company's net loss is attributable to our increased operating loss and increased interest expense.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operating activities was \$4.3 million for the three months ended March 31, 2001 compared to cash flow used in operating activities of \$682,000 for the first three months of 2000. This increase is related primarily to the first quarter 2000 payment of \$2.7 million in non-recurring IPO bonuses coupled with higher collections of accounts receivable and lower payments of accrued expenses during the first quarter of 2001 as compared to 2000.

Cash flow used in investing activities during the first three months of 2001 was \$1.8 million compared to \$1.5 million used during the first three months of 2000. The \$300,000 increase is attributable to the purchases of broadcast and other equipment while we continue to improve technical facilities at our stations.

Cash flow used in financing activities of \$554,000 for the first three months of 2001 an increase of \$165,000 over 2000, all of which relates to increased payments on our capital lease facilities.

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The Company's revolving credit facility allows for borrowings up to \$30.0 million, dependent upon our meeting certain financial tests. All \$30.0 million was available as of March 31, 2001. The revolving credit facility allows borrowings to be used to fund future acquisitions of broadcast stations and for general corporate purposes. At March 31, 2001 there were no borrowings outstanding under the agreement. We do not expect to meet certain of the

10

11

financial tests for the second quarter 2001 and, due to uncertain economic conditions affecting advertiser demand, we cannot predict whether we will be able to meet such tests during the remainder of the year. We intend to request an amendment to these financial tests. Without such an amendment or a waiver, we may not be able to borrow under this facility.

The Company also has a capital lease facility which can be drawn against in the aggregate amount of \$4 million, all of which is available for draw down as of March 31, 2000. This lease commitment expires on June 30, 2001. Borrowings under this and previous lease facilities are generally repaid over five years. As of March 31, 2001, amounts due under the facilities were \$9.0 million bearing an implicit average interest rate of 8.91% per annum. At March 31, 2000, amounts due under this and predecessor facilities were \$7.0 million and bore the implicit average interest rate of 9.30%.

Effective October 1, 2000, the Company's \$175 million 10 7/8% Senior Discount Notes due September 30, 2004 began accruing cash interest. The interest payment on these notes amounts to approximately \$9.5 million every six months, with the first payment due on March 31, 2001. Since this first payment date fell on a Saturday, the payment was made on Monday, April 2, 2001.

At March 31, 2001, the Company had \$33.0 million of cash and working capital of \$26.6 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/or equity financing. However, there is no guarantee that such additional debt and/or equity will be available or available at terms acceptable to the Company.

ITEM 3. 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. At March 31, 2001, the Company had no borrowings under the revolving credit facility.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company currently and from time to time is involved in litigation incidental to the conduct of its business. The Company maintains comprehensive general liability and other insurance, which it believes to be adequate for the purpose. The Company is not currently a party to any lawsuit or proceeding that management believes would have a material adverse affect on its financial

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condition or results of operations.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS.

None.

(b) REPORTS ON FORM 8-K

The Company has not filed a Current Report on Form 8-K within the three-month period ended March 31, 2001.

11

12

SIGNATURES

Pursuant to the requirements 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.

Date: May 11, 2001

By: /s/ THOMAS ALLEN

Thomas Allen
Executive Vice President / CFO
(Principal accounting officer)

12