

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

ACME COMMUNICATIONS INC

Form 10-Q

August 14, 2001

1

=====

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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
(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)

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 August 13, 2001, ACME Communications, Inc. had 16,750,000 shares of common stock outstanding.

=====

2

ACME COMMUNICATIONS, INC.

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

FORM 10-Q

TABLE OF CONTENTS

ITEM NUMBER -----	PAGE ----
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
ACME Communications, Inc. and Subsidiaries	
Consolidated Balance Sheets as of June 30, 2001 and December 31, 2000.....	3
Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2001 and June 30, 2000.....	4
Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2001.....	5
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2001 and June 30, 2000.....	6
Notes to Consolidated Financial Statements.....	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results Of Operations.....	8
Item 3. Quantitative and Qualitative Disclosures About Market Risk.....	13
PART II - OTHER INFORMATION	
Item 1. Legal Proceedings.....	13
Item 6. Exhibits and Reports on Form 8-K.....	13

2

3

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	AS OF DECEMBER 31, 2000	AS OF JUNE 30, 2001
	-----	-----
	(UNAUDITED)	
	(IN THOUSANDS)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,037	\$ 25,536
Accounts receivable, net	15,005	14,930
Current portion of programming rights	12,477	11,016

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

Prepaid expenses and other current assets	2,444	2,729
Deferred income taxes	1,139	1,139
	-----	-----
Total current assets	62,102	55,350
Property and equipment, net	29,471	30,124
Programming rights, net of current portion	10,984	7,283
Intangible assets, net	287,748	279,554
Other assets	9,140	8,581
	-----	-----
Total assets	\$ 399,445	\$ 380,892
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,337	\$ 6,812
Accrued liabilities	9,354	9,847
Current portion of programming rights payable	12,108	9,638
Current portion of obligations under lease	2,271	2,806
	-----	-----
Total current liabilities	31,070	29,103
Programming rights payable, net of current portion	10,205	7,531
Obligations under lease, net of current portion	7,258	8,640
Other liabilities	250	265
Deferred income taxes	15,614	9,459
10 7/8% senior discount notes	175,000	175,000
12% senior secured notes	54,722	58,446
	-----	-----
Total liabilities	294,119	288,444
	-----	-----
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	130,808	131,073
Accumulated deficit	(25,650)	(38,793)
	-----	-----
Total stockholders' equity	105,326	92,448
	-----	-----
Total liabilities and stockholders' equity	\$ 399,445	\$ 380,892
	=====	=====

See the notes to the consolidated financial statements.

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

FOR THE THREE MONTHS ENDED

FOR THE SIX MONTHS

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

	JUNE 30,		JUNE 30,	
	2000	2001	2000	2001
Net revenues	\$ 19,169	\$ 18,895	\$ 35,387	\$ 34,895
Operating expenses:				
Station operating expenses	13,922	14,431	26,577	26,577
Depreciation and amortization	4,976	5,174	10,420	10,420
Corporate	989	1,046	1,897	1,897
Equity-based compensation	133	133	265	265
Operating loss	(851)	(1,889)	(3,772)	(3,772)
Other income (expenses):				
Interest income	328	272	625	625
Interest expense	(6,716)	(7,314)	(13,072)	(13,072)
Gain (loss) on sale of assets, net	1,511	(10)	1,511	1,511
Other expense	(3)	(46)	(4)	(4)
Loss before income taxes	(5,731)	(8,987)	(14,712)	(14,712)
Income tax benefit	1,546	2,736	4,337	4,337
Net loss	\$ (4,185)	\$ (6,251)	\$ (10,375)	\$ (10,375)
Net loss per share, basic and diluted	\$ (0.25)	\$ (0.37)	\$ (0.62)	\$ (0.62)
Basic and diluted weighted average common shares outstanding	16,750,000	16,750,000	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 PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCK EQUITY
	SHARES	AMOUNT			
Balance at December 31, 2000	16,750	\$168	\$130,808	\$ (25,650)	\$ 103,916
Equity-based compensation	--	--	265	--	265
Net loss	--	--	--	(13,143)	(13,143)
Balance at June 30, 2001 (unaudited)	16,750	\$168	\$131,073	\$ (38,793)	\$ 99,298

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

See the notes to the consolidated financial statements.

5

6

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	2001
	(IN THOUSANDS)	
Cash flows from operating activities:		
Net loss	\$ (10,375)	\$ (13,143)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,420	10,397
Amortization of program rights	6,347	7,076
Amortization of debt issuance costs	595	796
Amortization of discount on 10 7/8% senior discount notes	8,793	--
Amortization of discount on 12% senior secured notes	3,265	3,724
Equity-based compensation	265	265
Deferred taxes	(4,337)	(6,031)
(Gain) loss on sale of assets, net	(1,511)	10
Changes in assets and liabilities:		
(Increase) decrease in accounts receivables, net	(697)	75
Increase in prepaid expenses	(48)	(285)
Increase in other assets	(720)	(200)
Increase (decrease) in accounts payable	1,259	(525)
Increase (decrease) in accrued liabilities	(4,043)	386
Payments for programming rights	(6,130)	(7,060)
Decrease in other liabilities	(104)	--
Net cash provided by (used in) operating activities	2,979	(4,515)
Cash flows from investing activities:		
Purchase of property and equipment	(4,293)	(3,082)
Proceeds from sale of assets	2,634	230
Purchases of and deposits for station interests	(221)	(51)
Net cash used in investing activities	(1,880)	(2,903)
Cash flows from financing activities:		
Capital lease obligations	--	2,966
Payments on capital lease obligations	(776)	(1,049)
Net cash provided by (used in) financing activities	(776)	1,917

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

Net increase (decrease) in cash	323	(5,505)
Cash at beginning of period	23,846	31,037
	-----	-----
Cash at end of period	\$ 24,169	\$ 25,536
	=====	=====
Cash Payments for:		
Interest	\$ 212	\$ 10,021
Taxes	\$ 197	\$ 244
	=====	=====
Non-Cash Transactions:		
Program rights in exchange for program rights payable	\$ 1,489	\$ 1,914
	=====	=====

See the notes to the consolidated financial statements.

6

7

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) FOR THE SIX MONTHS ENDED JUNE 30, 2000 AND JUNE 30, 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
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

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

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 and six month periods ended June 30, 2001 and 2000 are unaudited and have been prepared in accordance with accounting principles generally accepted 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 periods. As permitted under the applicable rules and regulations of the Securities and Exchange Commission

7

8

("SEC"), these consolidated financials 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 for the year ended December 31, 2000, filed with the SEC on March 30, 2001. The results of operations presented in the accompanying consolidated financial statements are not necessarily indicative of the results that may be expected for the year ending December 31, 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. 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 3,206,391 shares at June 30, 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 report on Form 10-Q.

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. In addition, when used in this report, the words "believe," "may," "expects," "anticipates," "will,"

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

"intend" and any similar expressions are intended to identify forward-looking statements. Such statements are subject to a number of risks and uncertainties. Actual results in the future could differ materially and adversely from those described in the forward-looking statements as a result of various important factors, including (but not limited to) the impact of changes in national and regional economies, our ability to service our outstanding debt, or to borrow in the future, pricing fluctuations in local and national advertising, volatility in programming costs, the effects of governmental regulation of broadcasting and the other risk factors set forth in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 30, 2001 and the Company's Form S-1 Registration Statement filed with the Securities and Exchange Commission on September 29, 1999 pursuant to the Securities Act of 1933. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

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.

8

9

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 adjusted EBITDA along with a summary of our statement of cash flow data for the periods indicated:

OTHER OPERATING DATA:

THREE MONTHS ENDED	SIX MONTHS ENDED
JUNE 30,	JUNE 30,
-----	-----

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

	2000 ----- (Unaudited)	2001 ----- (Unaudited)	2000 ----- (Unaudited)	2001 ----- (Unaudited)
Broadcast cash flow and adjusted EBITDA(1):				
Operating loss	\$ (851)	\$ (1,889)	\$ (3,772)	\$ (5,313)
Add back:				
Equity-based compensation	133	133	265	265
Depreciation and amortization	4,976	5,174	10,420	10,397
Amortization of program rights	3,398	3,561	6,347	7,076
Corporate expenses	989	1,046	1,897	2,011
Adjusted program payments (1)	(3,195)	(3,538)	(6,130)	(7,060)
	-----	-----	-----	-----
Broadcast cash flow	5,450	4,487	9,027	7,376
Less:				
Corporate expenses	989	1,046	1,897	2,011
	-----	-----	-----	-----
Adjusted EBITDA	\$ 4,461	\$ 3,441	\$ 7,130	\$ 5,365
Broadcast cash flow margin (1)	28.4%	23.7%	25.5%	20.9%
Adjusted EBITDA margin (1)	23.3%	18.2%	20.1%	15.2%
CASH FLOWS PROVIDED BY (USED IN):			(Unaudited)	
Operating activities			\$ 2,979	\$ (4,519)
Investing activities			\$ (1,880)	\$ (2,903)
Financing activities			\$ (776)	\$ 1,917

(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.

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

QUARTER AND SIX MONTHS ENDED JUNE 30, 2001 AND JUNE 30, 2000

Net revenues for the second quarter of 2001 decreased 1% to \$18.9 million compared to \$19.2 million for the same period a year ago while the six-month year-to-date net revenues were \$35.4 million for both 2000 and 2001. The slight decrease for the quarter and the zero growth for the six-month periods reflect the net effect of ratings and revenue growth at most of our stations, offset by the adverse impact of continued lower advertising demand.

Station operating expenses increased 4% to \$14.4 million for the second quarter of 2001 compared to \$13.9 million for the same period a year ago and increased 5% to \$28.0 million for the six months ended June 30, 2001 compared with \$26.6 million for June 30, 2000. These increases reflect our increased programming, staffing and sales related costs at most of our developing stations (all stations except KPLR in St. Louis).

Depreciation and amortization increased 4% to \$5.2 million in the second quarter of 2001 compared to \$5.0 million in the same period a year ago. This increase reflects our continued investment in improved transmission and studio equipment for our stations, including costs associated with the transition to digital broadcast required by the Federal Communications Commission to be completed for all of our stations by May 2002. Depreciation and amortization expense remained flat at \$10.4 million for both the six-month periods reflecting the sale of two buildings in June 2000 offset by the increased expenditures in the second half of 2000 and the first half of 2001.

Corporate expenses increased 6% for both the quarter and year-to-date periods ended June 30 2001 as compared to the corresponding 2000 periods. Second quarter corporate expenses increased \$57,000 to \$1,046,000 for 2001 as compared to \$989,000 for the same period a year ago while the year-to-date expenses increased \$100,000 to \$2.0 million from \$1.9 million for the same period in 2000. The increased expenses are due to an increase in salary costs and professional fees.

Equity-based compensation of \$133,000 in the second quarter and \$265,000 for the six months 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 \$7.3 million in the second quarter of 2001 compared to \$6.7 million in the same period a year ago. On a year-to-date basis, interest expense increased 11% or \$1.4 million to \$14.5 million from the \$13.1 million June 2000 expense. These increases are 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, along with increased interest related to higher capital lease obligations compared to a year ago.

The Company recorded an income tax benefit of \$2.7 million during the second quarter compared to a benefit of \$1.5 million in the corresponding quarter of 2000. For the six-month period ended in June the tax benefit was \$6.0 million compared to \$4.3 million in 2000. The increased tax benefits relate to increased losses during both periods as compared to the comparable periods of 2000. Goodwill amortization that is not deductible for tax purposes was approximately \$1.4 million for quarter and \$2.8 million for the six-month period for both years.

Broadcast cash flow (as defined) decreased 18% for both the second quarter and the six-month period ended June 2001 as compared to the same periods a year ago. This decrease was primarily the result of our continued investment in our developing stations. This investment consists of increased program costs and sales related expenses.

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

Adjusted EBITDA (as defined) decreased 23% to \$3.4 million for the second quarter of 2001 compared to \$4.5 million for the second quarter of 2000 and decreased 25% to \$5.4 million from \$7.1 million for the six month periods ended June 30, 2001 and 2000. These decreases were a result of lower broadcast cash flow and slightly higher corporate expenses for both the second quarter and the six-month period compared to the year earlier periods.

10

11

The Company's net loss for the second quarter was \$6.3 million, a 49% increase as compared to a net loss of \$4.2 million for the second quarter of 2000. For the six-month period, our net loss increased 27% to \$13.1 million as compared to a \$10.4 million loss for the comparable period of 2000. The increase in both the Company's second quarter and six-month net losses is attributable to reduced adjusted EBITDA, increased interest expense and increased depreciation and amortization expense. In addition, the Company's 2000 six-month net loss also included a gain of \$1.5 million related to the sale of our studio building in St. Louis.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow used in operating activities was \$4.5 million for the six months ended June 30, 2001 compared to cash flow provided by operating activities of \$3.0 million for the second six months of 2000. This \$7.5 million decrease in cash flow relates primarily to the second quarter 2001 payment of \$9.5 million in interest on our 10 7/8% senior discount notes and decreased adjusted EBITDA in 2001, net of the \$3.0 million in non-recurring IPO bonuses paid to the founding executives in the first six months of 2000.

Cash flow used in investing activities during the second six months of 2001 was \$2.9 million compared to \$1.9 million used during the second six months of 2000. This increase reflects the approximately \$1.4 million decrease in purchases of property, equipment and station interests offset by the decrease in proceeds from the sale of assets of approximately \$2.4 million between the second quarter of 2000 and 2001.

Cash flow provided by financing activities was \$1.9 million for the second six months of 2001, as compared to cash flow used in financing activities of \$776,000 in 2000 reflects the addition of capital leases during the second quarter of 2001 offset by the payments on capital leases, which increased by \$273,000 over the same period of 2000.

ACME Television's revolving credit facility allows for borrowings up to \$30.0 million, dependent upon our meeting certain financial tests. A prerequisite for borrowing on the facility is that ACME Communications contribute up to \$13.2 million in cash or other assets to ACME Television. All \$30.0 million was available as of June 30, 2001. The revolving credit facility allows borrowings to be used to fund future acquisitions of broadcast stations and for general corporate purposes. At June 30, 2001 there were no borrowings outstanding under the facility. In June 2001, we amended the credit agreement, including certain financial tests for the second and third quarters of 2001. Due to continuing weak economic conditions, we do not expect to meet certain of the financial tests for the fourth quarter 2001. We intend to request an amendment or a waiver to these financial tests. Without such an amendment or a waiver, we may not be able to borrow under this facility. In such case, the Company anticipates that it would be able to establish a replacement credit facility. Any such replacement may have terms less favorable than the terms of our current facility.

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

Borrowings under lease obligations are generally repaid over five years. As of June 30, 2001, amounts due under these facilities were \$11.4 million bearing an implicit average interest rate of 8.50% per annum. At June 30, 2000, amounts due under the facilities were \$6.6 million and bore the implicit average interest rate of 8.95%.

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 our next payment due on September 30, 2001.

At June 30, 2001, the Company had \$25.5 million of cash and working capital of \$26.2 million.

The Company believes that existing cash balances and funds generated from operations 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 additional liquidity will be provided by amounts available under its existing credit facility or replacement credit facility or amounts available under capital lease facilities we are currently negotiating. 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.

11

12

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria that must be met before intangible assets acquired in a purchase method business combination can be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead, tested for impairment (at least annually) in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long Lived Assets and for Long Lived Assets to Be Disposed Of.

The Company is required to adopt the provisions of Statement 141 immediately and Statement 142 effective January 1, 2002. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized prior to the adoption of Statement 142.

Statement 141 will require upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement 142 will require the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with Statement 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings.

As of the proposed date of adoption, January 1, 2002, the Company expects to have unamortized goodwill in the amount of \$107.1 million and unamortized identifiable intangible assets in the amount of \$164.3 million, all of which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill and intangible assets was \$16.4 million and \$8.2 million for the year ended December 31, 2000 and the six months ended June 30, 2001, respectively. It is expected that the majority of the Company's intangible assets will qualify for an indefinite life and accordingly, there will be no amortization under Statement 142. Because of the extensive effort needed to comply with adopting Statements 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

12

13

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 June 30, 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

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

condition or results of operations.

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

(a) EXHIBITS.

Exhibit Number -----	Exhibit Description -----
10.1*	Eighth Amendment to Credit Agreement, dated March 31, 2001.
10.2*	Ninth Amendment to Credit Agreement, dated June 29, 2001.
10.3*	Restated and Amended Contribution Agreement, dated June 29, 2001.

* Filed herewith.

(b) REPORTS ON FORM 8-K

The Company has not filed a Current Report on Form 8-K within the three-month period ended June 30, 2001.

13

14

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: August 14, 2001

By: /s/ THOMAS ALLEN

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

14

15

EXHIBIT INDEX

Exhibit Number -----	Exhibit Description -----
10.1	Eighth Amendment to Credit Agreement, dated March 31, 2001.

Edgar Filing: ACME COMMUNICATIONS INC - Form 10-Q

- 10.2 Ninth Amendment to Credit Agreement, dated June 29, 2001.
- 10.3 Restated and Amended Contribution Agreement, dated June 29, 2001.