

ACME COMMUNICATIONS INC
Form 10-K
March 31, 2008

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

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 000-27105

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 202A, Santa Ana, California, 92705
(Address of principal executive offices) (Zip Code)

(714) 245-9499
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock,	

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par value \$.01 per share The NASDAQ Stock Market
LLC
(NASDAQ Global Market)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes ☐ No ☒

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

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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]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

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 30, 2007), the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$63,878,171 based on the closing price of \$5.01 per share on such date, as reported on the NASDAQ Stock Market. For the purposes of the foregoing calculation only, all of the registrant's directors, executive officers and persons known to the registrant to hold ten percent or greater of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at March 28, 2008
Common Stock, \$.01 par value	16,772,415 shares (including
per share	725,652 shares held in treasury)

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Portions of the Proxy Statement for the	Part III
2008	
Annual Meeting of Stockholders	

ACME COMMUNICATIONS, INC.
ANNUAL REPORT ON FORM 10-K
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* Items incorporated by reference, in whole or in part, to our Proxy Statement to be filed pursuant to Regulation 14A relating to the 2008 Annual Meeting of Stockholders.

**Not applicable.

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," "hopeful," "could," "expect," "anticipate," "believe," "predict," "potential", "might", "project", "outlook" 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 Item 1A 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.

These forward-looking statements speak only as of the date of this Annual Report on Form 10-K. We do not undertake any obligation 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 addition, we make no representation with respect to any materials available on the Internet, including materials available on our website.

PART I

Item 1. Business

ACME Communications, Inc. and its wholly-owned subsidiaries (together, unless the context otherwise requires, the "Company" or "we") owns and operates six broadcast television stations (our "Continuing Stations") in five medium-sized markets across the United States, which includes a duopoly in the Albuquerque-Santa Fe marketplace. Five of these stations are network affiliates of The CW Television Network and one station is a network affiliate of MyNetworkTV. Our stations broadcast in markets that cover, in the aggregate, approximately 2.2% of the total U.S. television households. In addition to our television stations, we also produce a three-hour weekday news and lifestyle morning program, The Daily Buzz, which airs on all of our stations and on over 140 television stations across the United States.

Since 2003, we have focused on reducing debt and attempting to monetize the value of our station group through strategic station sales. In March 2003, we sold two of our stations, KPLR-TV serving the St. Louis marketplace and KWBP-TV, serving the Portland, Oregon marketplace, to subsidiaries of the Tribune Company for an aggregate cash consideration of \$275 million (the "Tribune Transaction") plus additional cash consideration in the amount of approximately \$4.6 million relating to KPLR's closing-date working capital. In April 2006, we completed the sale of our Salt Lake City station, KUWB, to subsidiaries of Clear Channel Communications, Inc. (the "Clear Channel Transaction") for \$18.5 million in an all-cash transaction. In February 2007, we completed the sale of our Ft. Myers – Naples, Florida station, WTVK, to Sun Broadcasting, Inc. (the "Sun Transaction") for \$45.0 million in cash. In October 2007, we completed the sale of our Decatur station, WBUI, to Gocom Media of Illinois, LLC for \$4.0 million in cash. We have accounted for the results of these five stations as "discontinued operations" and our Continuing Stations represent our continuing operations.

Our stations historically were affiliates of The WB Television Network and, in the case of our second station in the Albuquerque-Santa Fe marketplace, an affiliate of UPN. On January 24, 2006, Warner Bros. and CBS jointly announced that, effective September 2006, they would cease operations of their respective networks, The WB and UPN, and create a new jointly-owned television network, The CW Network (sometimes hereinafter referred to as "The CW").

In March 2006, after careful evaluation of each of the two new networks, we entered into affiliation agreements with The CW for all of our then WB Network affiliated stations. We affiliated our second station in Albuquerque-Santa Fe, our then UPN affiliate, with MyNetworkTV.

Both The CW and My Network TV launched in September 2006. While most industry observers anticipated that The CW would achieve stronger initial ratings than either The WB or UPN individually achieved in the 2005/2006 season, the new network's ratings during their first full season actually declined compared to the 2005/2006 season. MyNetworkTV failed to produce any significant ratings in its first full season and the performance of these two new networks adversely affected our stations.

Similar to The WB Network's approach, The CW focuses on younger demographics than the Big Four networks (i.e. ABC, CBS, NBC and FOX). Accordingly, we continue our strategy to focus much of our surrounding, non-network, syndicated programming on shows that appeal to younger viewers. In addition, in some of our markets we broadcast local and regional sports programming and in all of our markets we provide local news and weather updates during our morning news show, The Daily Buzz. We believe this programming enhances our ability to sell advertising time to local and regional advertisers and increase audience awareness of our still developing stations.

We believe that medium-sized (“middle”) markets provide certain advantages such as fewer competitors and lower operating costs compared to large markets. We continue to focus on a strategy to capitalize on these advantages and to grow our revenues and cash flow with an emphasized focus on local advertising sales. Since we centralize many of our stations' administrative functions and primarily provide entertainment programming, our station general managers are able to focus on sales and operating margins.

We commenced operations in 1997, and ACME Communications, Inc. was incorporated as our holding company in Delaware in 1999 in connection with our initial public offering. Our executive office telephone number is (714) 245-9499.

Our Development, Strategy and Outlook

We formed with the goal of building a middle market broadcast television station group comprised mostly of new start-up stations and underperforming stations – generally affiliated with The WB Television Network, which at the time was an emerging network.

Over the past three years, the growth of television non-political advertising revenues has slowed significantly – both in general and in our continuing markets. Political advertising demand continues to be strong in the even, election years, but also continues to be spent almost exclusively at the three older-skewing major networks’ – ABC, CBS and NBC - affiliated stations. Accordingly, our stations do not directly benefit from this biennial spike in advertising demand. We do, however, benefit indirectly in that inventory levels at these stations is much tighter and we typically are able to garner a higher share of non-political (or “regular”) business.

In 2007, aggregate regular advertising revenues in our markets grew just under 1% over 2006 levels, following a decline in market revenues of 4.2% in 2006 and an increase of 7.9% in 2005.

While there is expected to be significant political advertising demand in 2008, especially in light of expected hotly contested presidential primaries and general election, the major benefactors of this political advertising will again be affiliates of ABC, CBS and NBC. We are hopeful that our stations might have an opportunity to attract some of this political demand as we anticipate at least some of the national, state and local candidates making a new effort to attract younger voters. Regular business will be much more dependent on the overall health of the national and local economies. Many economists have predicted that the country is headed into a recession, led by high fuel prices, the continued fall-out of sub-prime mortgages and turmoil in the equity and credit markets. Our ability to grow our revenues in 2008 depends upon, among other factors, the economic health of our markets and our ability to increase viewership or market share at our stations.

We do not intend to expand our portfolio of stations and will continue to attempt to sell our stations to monetize shareholder value. However, the current merger and acquisition market for most media business, and television and radio in particular, remains weak with fewer buyers and less financing available than compared to recent years. While we are hopeful that there will eventually be opportunities to monetize our station assets at prices we consider fair, such opportunities may take much longer to develop or may not materialize at all.

Programming

Our current programming includes:

- The CW Network prime time programming (at five of our Continuing Stations);
- The MyNetworkTV prime time programming (at one of our Continuing Stations);

- The CW Network weekday afternoon programming;

- Kids' WB! Saturday morning programming (at six of our Continuing Stations);
 - Syndicated programming;
- The Daily Buzz, a three-hour morning news program (at all of our Continuing Stations); and
 - Local programming.

Prime Time Programming. In prime time, The CW Network has the youngest average age of viewers compared with the other network broadcasters. Prime time programming includes America's Next Top Model, Smallville, Supernatural and Everybody Hates Chris. The CW Network currently provides 13 hours of prime time programming Sunday through Friday. It also provides a two hour pre-prime time block on Sunday nights which consists of earlier season's episodes of current CW Network prime time shows.

Kids' WB! Programming. Kids' WB!, originally launched by The WB Network in September 1995, airs as a 5-hour block on Saturday mornings on all of our CW affiliated stations. Programs in this program block include Tom and Jerry Tales, Shaggy and Scooby-Doo and The Spectacular Spider-Man.

Syndicated Programming. In addition to The CW Network and MyNetworkTV programming, our stations air syndicated programs. Generally, our most profitable programming time periods are the hours immediately before and after the network prime time programming. Consequently, during these time periods, we air programs that are targeted to the audiences similar in demographics as those that watch The CW Network and MyNetworkTV prime time programs. These syndicated programs include Family Guy, Two and a Half Men, That 70s Show, Friends, Seinfeld, Everybody Loves Raymond, King of Queens, According to Jim, Will and Grace, and King of the Hill. We have secured future broadcast rights for certain of our stations to The Office (fall 2009) and second cycle rights to Everybody Loves Raymond, King of Queens and That 70s Show. We have multi-year contracts to air most of our syndicated programming.

The Daily Buzz. In September 2002, we launched The Daily Buzz, a three-hour morning news show. Effective January 1, 2004, we formed a new production entity, The Daily Buzz, LLC and began jointly producing the program with Emmis Television Broadcasting, L.P. ("Emmis"), a subsidiary of Emmis Communications Corporation. On March 14, 2007, we acquired Emmis' 50% share of the Daily Buzz, LLC and became the sole producer and owner of the program. The program currently airs on 146 stations, including all of our CW Network affiliated stations and Emmis' sole CW Network affiliate and on The CW 100+ Cable Group (which airs on cable in more than 100 small markets across the country), representing markets that cover, in the aggregate, approximately 39% of U.S. households. The show is produced in Orlando, Florida, and in addition to traditional news, weather and sports related stories, contains entertainment, technology and lifestyle segments.

Local Programming. Several of our stations also air certain regional and local sporting events of local interest, which we believe helps increase local awareness of our stations and expands our advertiser base. In addition, we air local weather and news updates at all of our stations during The Daily Buzz, our weekday morning news program. We also air a 30-minute nightly newscast on our Dayton station and a 10-minute weeknight newscast on our Knoxville station. Both of these newscasts are produced for us by other network affiliates in our markets.

Our Stations and Markets

The following table provides general information concerning our Continuing Stations:

Marketplace	Market Rank (1)	Station Calls / Channel	Affiliation	Number of Commercial Stations in Market (2)	Station Rank (3)	Station Share (4)	ACME Operation
Albuquerque - Santa Fe, NM	44	KWBQ / 19/20	CW	6	5	5	March 1999
		KASY / 50	MNT	6	6	1	November 1999
		KWBR / 21	CW (5)	See (5)	See (5)	See (5)	January 2003
Knoxville, TN	58	WBXX / 20	CW	5	5	6	October 1997
Dayton, OH	62	WBDT / 26	CW	5	5	7	June 1999
Green Bay - Appleton, WI	70	WIWB / 14	CW	6	5	4	June 1999
Madison, WI	85	WBUW / 57	CW	5	5	3	November 2002

- (1) All television stations throughout the United States are grouped by Nielsen Media Research into 210 markets that are ranked in size according to the number of households with televisions in the market for the 2007/2008 season.
- (2) Represents the number of full-power commercial broadcast television stations in the market, excluding Spanish-language stations, digital-only stations and satellite stations.
- (3) Represents our station's ratings rank, excluding Spanish-language stations, based on the average of the February, May and November 2007 major ratings periods, for adult viewers ages 18-49 on a Monday through Sunday, 5:00 p.m. to midnight basis, as measured by Nielsen Media Research.
- (4) Station share based on the average of the February, May and November 2007 major ratings periods, for adult viewers ages 18-49 on a Monday through Sunday, 5:00 p.m. to midnight basis.
- (5) KWBR is a full-power satellite station of KWBQ, serving the Roswell area of the Albuquerque-Santa Fe marketplace. Its viewership is reflected in KWBQ's station rank and share.

KWBQ: Albuquerque - Santa Fe, New Mexico

KASY: Albuquerque - Santa Fe, New Mexico

Designated Market Area: 44

TV Households: 677,740

Total Age 2+ Population: 1,710,000

Market Description. Thirty-three percent of the total population of Albuquerque - Santa Fe is under 25 years of age. The estimated median household income in the Albuquerque