ACME COMMUNICATIONS, Inc.

ANNUAL REPORT

2011

TABLE OF CONTENTS

Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations

Forward Looking Statements

This Annual Report 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," "could," "expect," "believe," " should" or "might" 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. 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) an inability to selectively sell our stations, an inability of The CW Network or MyNetworkTV to attract and grow viewership, the impact of changes in national and regional economies, including advertising demand, pricing fluctuations in local and national advertising, and volatility in programming costs and other risk factors.

These forward-looking statements speak only as of the date of this Annual Report. We undertake 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. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report might not occur.

Presentation of Financial Information in this MD&A

The financial information and discussion contained in this MD&A for the years ended December 31, 2011 and 2010 is unaudited. In the opinion of management, such financial information, however, includes 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 the periods presented. The information contained in the MD&A should be read in conjunction with our audited Consolidated Financial Statements, and notes thereto, as of and for the years ended December 31, 2011 and 2010, which can be found on the Company's Web site at *www.acmecommunications.com.*

Overview

This MD&A is provided as a supplement to our audited Consolidated Financial Statements and notes thereto, as discussed above, in order to enhance your understanding of our results of operations and financial condition. Our MD&A is organized as follows:

□ *Introduction*. This section provides a general description of our Company and discussion about our operations.

□ *Recent Developments and Sales of Stations*. This section provides a general description of our Company's recent developments including the sales of the Company's WBXX, Knoxville, TN (WBXX), WBDT, Dayton, OH (WBDT) and WCWF (formerly WIWB, Green Bay-Appleton, WI) television stations completed in 2011 and the sale of station WBUW, Madison, WI (WBUW), completed in February 2012.

□ *Critical Accounting Policies and Estimates.* This section discusses those accounting policies that are considered important to the evaluation and reporting of our financial condition and results of operations, and whose application requires us to exercise subjective or complex judgments in making estimates and assumptions. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 2 to our audited Consolidated Financial Statements, which are, as mentioned above, posted separately on our Company's website at *www.acmecommunications.com*.

□ *Results of Operations*. This section provides our analysis and outlook for the significant line items on our Consolidated Statements of Operations, as well as other information that we deem meaningful to understand our results of operations on both a continuing and discontinuing operations basis.

☐ *Liquidity and Capital Resources*. This section provides an analysis of our liquidity and cash flows and discussions of our contractual obligations and commitments, as well as our outlook on our available liquidity as of December 31, 2011.

□ *Recent Accounting Pronouncements.* This section provides a summary of the most recent authoritative accounting standards and guidance that have either been recently adopted by our Company or may be adopted in the future.

As of December 31, 2011, our Company, ACME Communications, Inc. and its wholly-owned subsidiaries (together, unless the context otherwise requires, the "Company" or "we"), owned and operated three independently programmed broadcast television stations serving markets reaching 2.2% of the nation's television households: KWBQ and KASY, Albuquerque-Santa Fe, NM and WBUW, Madison, WI. In addition, we own KRWB in the Albuquerque-Santa Fe market, which is a satellite of KWBQ. 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 approximately 200 television stations across the United States. Our WBXX, WBDT and WCWF stations were sold in May 2011 – also see "*Sales of Stations and Other Events"* below. In December 2011, we entered into an agreement to sell our station WBUW and completed that sale in Febuary 2012. WBUW along with all of our previously sold stations have been treated as discontinued operations in our accompanying Consolidated Financial Statements and in this MD&A. Our remaining continuing operations consist of our duopoly in the Albuquerque-Santa Fe marketplace (ranked 45th by Nielsen in terms of television households) and The Daily Buzz (collectively, our "Continuing Operations"). KWBQ is an affiliate of The CW Television Network and KASY is an affiliate of MyNetworkTV.

Since we reached a high of eleven television stations in 2002, we have been seeking to monetize shareholder value by the selective sale of our stations. We continue to be sellers rather than buyers of television station assets. Sales of our stations, as discussed below under *Sales of Stations and Other Events*, in Knoxville, Dayton, Green Bay and Madison (collectively, our "Discontinuing Stations") were completed in May 2011 and February 2012 and in accordance with U.S. generally accepted accounting principles, we have presented the results of these stations as discontinued operations for all periods presented. We will continue to market our remaining continuing operating assets in order to maximize the values of those assets. We currently do not have a specific time table as to when our remaining assets will be sold and our operations will be wound up.

We derive revenues primarily from the sale of advertising time to local, regional and national advertisers and, to a lesser extent, from program licensing fees from other stations and distributors related to *The Daily Buzz.* At our KWBQ and KASY stations, Albuquerque-Santa Fe, NM we also receive retransmission consent fees. Our advertising revenues depend on popular programming that attracts audiences in the demographic groups targeted by advertisers, allowing us to sell advertising time at satisfactory rates. Similar to all commercial television stations, our rates are directly affected by the number of and demographic makeup of our viewing audience, as measured by Nielsen Media Research. Our revenues also depend significantly on factors such as the national and local economy and the level of local competition.

Approximately 65-75% of our revenues are derived from programming that airs between the hours of 5:00 p.m. to midnight. Network prime time, which is a subset of this broad day part, accounts for 12-15% of our total revenues.

KWBQ, our CW affiliated station and KASY, our MyNetworkTV affiliated station, are ranked fifth and sixth, respectively, amongst English-language commercial television stations in the Albuquerque-Santa Fe marketplace in terms of both share of viewers or share of the market's broadcast television revenue. In periods of lower advertising demand – as has been the case for the past two years - competition from market leaders, generally the ABC, CBS, NBC and FOX affiliated stations, increases as these stations become more aggressive in their pricing to maintain their revenue share. Over the past several years, biennial political spending in the even years has grown substantially. While we do not directly benefit in any significant way from this political advertising since most such advertising generally targets viewers older than our normal viewing audience, we indirectly benefit as the increased demand for political advertising reduces the overall inventory available to non-political advertisers in each market, which consequently increases the overall advertising price for such non-political advertisers.

Similar to the television advertising business in general, our revenues are usually greatest 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 net revenues reflect deductions from gross revenues for commissions payable to advertising agencies and national sales representatives.

Our primary ongoing operating expenses are costs of services, selling, general and administrative expenses, corporate expenses, depreciation and amortization and expenses related to impairments in our broadcast licenses. Costs of services include programming costs, which consist primarily of amortization of programming rights relating to syndicated programs as well as costs associated with our morning news show, *The Daily Buzz*, and music rights fees. Other costs of service include advertising expenses targeted at viewers, which is net of any reimbursement received or due to us for such advertising and promotion from our networks or from other program suppliers, and engineering and transmission related expenses. Selling, general and administrative expenses primarily include salaries, sales commissions to account executives, ratings service expenses, insurance and various related overhead expenses. Corporate expenses reflect costs of corporate management, which includes senior management and other centralized management support staff, along with investor relations expenses, professional fees including but not limited to annual audit and legal expenses, directors and officers insurance and other related corporate overhead.

The national recession that began in the second half of calendar 2008 had an adverse impact on our industry and our Company during 2009, but advertising demand improved in our continuing markets in 2010 and we saw a slow recovery during 2011. Advertising demand was also adversely impacted by the earthquake and tsunami in Japan in March 2011 which adversely impacted production of automobiles and dramatically reduced advertising needs by Japanese importers. While advertising demand has been relatively stable over the past two years, it is clear that the recovery is tenuous and advertisers seem to be cautiously gauging advertising needs.

Sale of Stations and Other Events

On March 17, 2010, the Company entered into a three-year license and consulting agreement, effective April 1, 2010, and an option agreement with Fisher Communications, Inc ("Fisher") for the Company's Daily Buzz unit. Under the license and consulting agreement Fisher will provide oversight of the program's daily operations, license certain of the program's assets to expand the digital content opportunities and provide funding of up to $500,000 for the program's transition to wide screen high-definition broadcast. The option agreement provides Fisher with the ability to acquire a 50% interest in The Daily Buzz, LLC and, if exercised, a further option to acquire the remaining 50% interest. At December 31, 2011, Fisher had made license fee payments of $500,000 to date, with a final $250,000 payment made in January 2012, and funded in full the $500,000 transition to wide screen high-definition costs. In accordance with the option agreement, Fisher can apply 100% of the paid license fees and 50% of the transition costs against their purchase option, if exercised. Fisher's option expires on September 30, 2012.

On May 28, 2010, the Company and LIN Television Corporation ("LIN") entered into a shared services arrangement and related agreements with respect to its stations KWBQ and KASY in Albuquerque-Santa Fe, NM; WBDT in Dayton, OH; and WCWF in Green Bay-Appleton, WI. Under the terms of the agreements, LIN provides technical, engineering, promotional, administrative and other operational support services from its stations KRQE and KASA in the Albuquerque-Santa Fe market, WDTN in the Dayton market, and WLUK in the Green Bay-Appleton market. In addition, LIN will provide advertising sales services under a joint sales agreement for the Company's stations in the Dayton and Green Bay-Appleton markets. Concurrent with the execution of these agreements, the Company entered into an option agreement, giving LIN the right to acquire any or all of the stations covered under these agreements.

On May 6, 2011, the Company completed the sale of WBXX, its station in Knoxville, TN to Lockwood Broadcast Group and on May 20, 2011, the Company completed the sale of WBDT, its Dayton, OH station and WCWF (formerly WIWB) its Green Bay-Appleton, WI station to LIN. The aggregate sales price for the three stations was $17.1 million. In connection with the sale of the Company's WBDT and WCWF stations, LIN exercised its right under their option agreement to pay approximately 50% of the combined purchase price with unregistered shares of LIN's common stock and issued the Company 1,150,000 shares of unregistered common stock valued at approximately $4.6 million. The resale of the unregistered common stock was restricted for a period of six months from the date of issuance. Also see Note 2 "*Investment Available-For-Sale*".

On June 13, 2011, the Company's Board of Directors approved a special distribution to its shareholders of record as of June 30, 2011 in the form of a cash distribution of $.35 per common share which amounted to approximately $5,616,000. The distribution was payable and paid on July 14, 2011.

On December 9, 2011, the Company's Board of Directors approved a special distribution to its shareholders of LIN unregistered common stock received in connection with LIN's purchase of the Company's television stations in Dayton and Green Bay-Appleton. A total of 850,000 shares of LIN unregistered common stock, worth approximately $3,511,000 or 74% of the shares received in the May sale transaction, was distributed pro-rata to ACME shareholders of record at the close of business on December 23, 2011 and distributed on December 29, 2011. Also see Note 2 "*Investment Available-For-Sale*".

On December 13, 2011, the Company entered into a definite agreement to sell WBUW in Madison, WI to Byrne Acquisition Group, LLC ("Byrne") for $1.8 million. The sale was approved by the FCC on February 10, 2012. The Company completed the WBUW sale on February 21, 2012. See Note 13 "*Subsequent Events*".

On December 29, 2011, the Company entered into a settlement agreement with its former national sales representation firm in the amount of $2.0 million. In connection with the above litigation the Company had previously recorded a $3.5 million litigation reserve, which was included in accrued liabilities in the accompanying Consolidated Balance Sheet as of December 31, 2010. As a result and upon settlement of the litigation the Company reversed its litigation accrual reserve accordingly at December 31, 2011, resulting in a gain of $1.5 million, of which approximately $496,000 is recognized in the Consolidated Statements of Operations from continuing operations.

On March 23, 2012, the Company's Board of Directors approved a special distribution to its shareholders of record as of April 4, 2012 in the form of a cash distribution of $.22 per common share which amounted to approximately $3,530,000 and the remaining 300,000 shares of LIN unregistered common stock, worth approximately $1,319,500, received in connection with LIN's purchase of the Company's television stations in Dayton and Green Bay-Appleton. Both, the cash distribution and LIN stock distribution were paid and distributed on April 10, 2012. See Note 13 "*Subsequent Events*". Also see Note 2 "*Investment Available-For-Sale*".

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to program rights, barter revenues, bad debts, intangible assets, including our broadcast licenses and goodwill, investments, income taxes, and contingencies and litigation reserves. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

Results of Operations

Year Ended December 31, 2011 compared to Year Ended December 31, 2010

Net revenues from continuing operations for 2011 increased $253,000, or 2%, to $12.9 million compared to net revenues of $12.7 million for 2010 mainly driven by a 20% increase in revenues at The Daily Buzz on higher advertising sales, net of lower advertising revenues at our Albuquerque-Santa Fe stations due to decreased market share caused by in-market competition.

Programming expenses for 2011 decreased $109,000, or 1%, to $7.2 million compared to $7.3 million in programming expense for 2010. This decrease relates primarily to lower write-downs of program license rights to adjust to net realizable value and lower barter programming expense during the twelve months ended December 31, 2011 compared to the twelve months ended December 31, 2010.

Other costs of services for 2011 decreased $41,000, or 4%, to $1.1 million compared to $1.1 million in other costs of services for 2010. The decrease in 2011 is primarily due to lower promotion costs when compared to the prior year.

Selling, general and administrative expenses for 2011 increased $94,000, or 3%, to $3.4 million compared to $3.3 million in 2010. The increase relates primarily to a full year of LIN management fees at our Albuquerque-Santa Fe stations in 2011 compared to a six-month period in 2010 since our shared services arrangement with LIN did not commence until July 1, 2010.

As a result of our $2.0 million settlement in December 2011 of our litigation with our former national representation firm we recorded a total reversal for $1.5 million ($496,000 of which was recorded at our continuing stations) representing the excess reserve of our previously recorded litigation reserve of $3.5 million ($1.2 million of which was recorded at our continuing stations) during 2010.

Depreciation and amortization expense for 2011 decreased $170,000, or 18%, to $753,000 compared to $923,000 for 2010. This decrease relates primarily to more assets becoming fully depreciated compared to new assets placed in service over the past year.

We recorded a loss on disposal of assets of $23,000 and $138,000 during 2011 and 2010, respectively mainly related to disposals of assets no longer in use at our Albuquerque-Santa Fe stations.

There were no impairment charges recorded during 2011 or 2010 related to our FCC broadcast licenses or our goodwill.

Corporate expenses for 2011 decreased $357,000, or 19%, to $1.5 million compared to $1.8 million in 2010 principally as a result of lower compensation expense due to corporate management restructures in the wake of our 2011 station sales implemented in July 2010, and lower professional fees when compared to 2010.

Our 2011 income tax benefit for continuing operations was $505,000, compared to an income tax benefit of $172,000 in 2010. The income tax benefit for 2011 is comprised of a $1.2 million current tax benefit, as taxable losses from our continuing operations reduced sale-driven taxable income from our discontinued operations, net of a $724,000 deferred tax expense related to the amortization of our intangible assets for tax purposes. The income tax benefit for 2010 is comprised of a net $896,000 current tax benefit mainly relating to our September 2010 election to amend our 2008 tax return and carry back losses which effectively eliminated much of the alternative minimum taxes we paid for the 2007 and 2003 tax years, net of a $724,000 deferred tax expense related to the amortization of our intangible assets for tax purposes.

Our income from continuing operations in 2011, net of income tax benefit, was $77,000, compared to a loss of $3.3 million in 2010. The reduction in our loss from continuing operations was primarily due to the reversal of the previously recorded litigation reserve relating to our MMT litigation coupled with increased net revenues and lower operating expenses in 2011.

Our net income from discontinued operations in 2011 was $12.3 million, including a $13.1 million gain from the sale of the three discontinued stations, compared to a loss of $5.1 million in 2010. The loss in 2010 arose primarily from a $2.3 million litigation reserve allocated to our discontinued operations relating to our MMT litigation. There was no income tax expense for discontinued operations in 2010.

As a result, our net income for the twelve months of 2011 was $12.4 million, compared to net loss of $8.5 million in 2010.

Liquidity and Capital Resources

Net cash used in operating activities was $508,000 for 2011, compared to net cash used of $2.2 million for 2010. This net decrease in cash flow usage mainly relates to the net effect of the funding of our $3.2 million litigation escrow net of the $2.0 million settlement, the receipt of our federal tax refund of $940,000, the $775,000 balloon payment made to one of our program suppliers which became due in June 2011 and overall improved operating results at The Daily Buzz and lower corporate expenses.

Net cash provided by investing activities for 2011 was $11.4 million consisting mainly of the cash portion of the sales proceeds relating to the sale of our WBXX, WBDT and WIWB stations. Net cash used in investing activities was $9,000, during 2010 consisting solely of capital expenditures.

Net cash used in financing activities was $6.5 million during 2011 compared to net cash provided of $413,000 during 2010. Net cash used during 2011 consists mostly of our $5.6 million distribution payment to our shareholders and repayments of program deferrals.

Net cash used in operating activities in our discontinued operations for 2011 was $2.7 million compared to net cash used of $336,000 during 2010 mainly related to our settlement of the MMT litigation of $2.0 million of which approximately $1.3 million related to our discontinuing operations.

Net cash provided by investing activities for our discontinued operations for 2011 was $775,000 while net cash provided by investing activities for 2010 was $813,000 relating primarily to the sale of our Dayton office building in 2011 and the sale of (3) of our broadcast towers and the purchase of the Dayton office building in 2010.

Net cash used in financing activities for our discontinued operations for 2011 was $2.7 million compared to net cash provided of $1.6 million for 2010, relating primarily to the repayment of program restructure deferral payments in connection with our station sales in May 2011 as well as the payoff of our promissory note and selling expenses of $656,000 in connection with the sale of our Dayton office building. Net cash provided in 2010 relates primarily to $650,000 in borrowings in connection with our purchase of the Dayton office building and program deferrals.

As of December 31, 2011, we had cash and cash equivalents of $2.1 million compared to cash and cash equivalent of $2.3 million as of December 31, 2010.

We believe existing cash and cash equivalents, net of our April 2012 cash dividend paid, including the proceeds received from the sale of our WBUW station in February 2012, the income tax refund received in March 2012 and funds generated from our remaining continuing operations will be sufficient to meet our operating cash requirements for at least the next twelve months. We have no debt obligations other than one capital lease. In the event that net cash provided by operating activities and cash on hand are not sufficient to meet future cash requirements, we may be required to reduce planned capital expenses, reduce operations cash uses, sell assets or seek financing.

Recent Accounting Pronouncements

Refer to Note 2, "*Recent Accounting Pronouncements*", in "Notes to Consolidated Financial Statements", for a discussion of new accounting standards.

Other Information

On October 14, 2008, we notified the Nasdaq Stock Market of our intent to voluntarily delist our common stock from the Nasdaq Global Market, and to voluntarily deregister our common stock under the Securities Exchange Act of 1934 by filing with the Securities & Exchange Commission ("SEC") a Form 25 relating to the delisting of our common stock on or about October 24, 2008, with the delisting of our common stock to be effective ten days thereafter.

Our last day of trading of our common stock on the Nasdaq Global Market was on Monday, November 3, 2008.

On November 4, 2008 we filed a Form 15 with the SEC to deregister our common stock under Section 12 of the Securities Exchange Act of 1934. Upon the filing of the Form 15, our obligation to file certain reports with the SEC, including Forms 10-K, 10-Q, and 8K, was immediately suspended. The deregistration of our common stock became effective February 1, 2009.

Our common stock is currently quoted on the Pink Sheets®, a centralized electronic quotation service for over-the-counter securities.

Directors and Executive Officers

The following table sets forth information about our directors and executive officers at December 31, 2011:

Name	Age (1)	Position
Jamie Kellner	64	Chairman of the Board
Douglas Gealy	51	President and Chief Executive Officer and Director
Stan Gill	56	Chief Operating Officer
Thomas Allen	59	Director
Michael Corrigan	53	Director
Frederick Wasserman	56	Director

(1) as of March 31, 2012

Jamie Kellner is a co-founder of ACME and is our Chairman of the Board. He served as our Chief Executive Officer from our inception in 1997 until July 2010. Mr. Kellner co-founded The WB Network in 1993 and served as its Chairman and Chief Executive Officer from 1994 until June 2004. Mr. Kellner was President of Fox Broadcasting Company from its inception in 1986 to 1993. Mr. Kellner also served as Chairman and Chief Executive Officer of Turner Networks, a division of AOL-Time Warner, from March 2001 to February 2003.

Douglas Gealy is a co-founder of ACME and has served as our President and, since July 2010, our Chief Executive Officer. Prior to July 2010, Mr. Gealy served as the Company's President and Chief Operating Officer. He has been a member of our Board since 1997. Before co-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.

Stan Gill began serving as ACME's Chief Operating Officer in July 2010. Simultaneously, Mr. Gill also serves as Vice President and General Manager of ACME's duopoly, KWBQ / KASY TV in Albuquerque, New Mexico, a position he's held since 2006. In July 2010, Mr. Gill also began oversight of ACME's WBUW, in Madison, Wisconsin. From 1999 to 2006 Mr. Gill served as Vice President and General Manager of WBDT and while at WBDT Mr. Gill was also involved and instrumental in taking ACME's The Daily Buzz, a 3 hour live national morning news program, from concept to on-air reality. Prior to joining ACME, Mr. Gill was Vice President at NBC Corporate, Six Sigma Quality Sales Division, New York, New York from 1997 to 1999. A 30 plus year TV and Radio veteran, Mr. Gill has held key management, sales and operations positions at WCMH TV, WBNS TV/Radio and WMNI Radio.

Thomas Allen is a co-founder of ACME and from our inception in 1997 until July 2010 served as our Executive Vice President and Chief Financial Officer. He has been a member of our Board since 1997 and has served as a consultant to the Company since July 2010. From August 1993 to May 1996, Mr. Allen was the Chief Operating Officer and Chief Financial Officer for Virgin Interactive Entertainment, Inc. Before that Mr. Allen served as Senior Vice President and Chief Financial Officer of the Fox Broadcasting Company from 1986 to 1993. Since July 2010, Mr. Allen has served as Executive Vice President and Chief Financial Officer of Outdoor Channel Holdings, Inc., a national cable network publicly traded on the Nasdaq Global Market. In February 2012, Mr. Allen assumed the additional duty of Chief Operating Officer of Outdoor Channel Holdings, Inc.

Michael Corrigan was appointed to the Board in April 2004. Mr. Corrigan is an experienced media and entertainment executive and consultant. He currently serves on the boards of a number of privately held entertainment companies. He has previously served as a member of the Board of Directors and Chairman of the Audit Committee of Tropicana Entertainment Inc., a gaming company and as Chairman of the board of Directors of Atari Inc., a game publisher and distributor. Mr. Corrigan was formerly Senior Executive Vice President and Chief Financial Officer of Metro Goldwyn Mayer Inc. and prior thereto was a senior partner in the entertainment, Media and Communications practice at Price Waterhouse.

Frederick Wasserman has served as a member of our Board since December 2006. Mr. Wasserman currently is President of FGW Partners LLC, which provides financial and management consultant services. From 2005 through 2006, Mr. Wasserman served as Chief Operating and Chief Financial officer of Mitchell & Ness Nostalgia Company, a manufacturer and distributor of licensed sportswear. From 2001 through 2005, he served as Chief Financial Officer and then President of Goebel of North America, an international manufacturer of collectibles, gifts and home decor. Mr. Wasserman serves on the board of directors of Breeze-Eastern Corporation and TeamStaff, Inc., both publicly traded companies on the Nasdaq Capital Market. In addition, Mr. Wasserman also serves on the board of directors of Gilman Ciocia, Inc. and MAM Software Group, both publicly traded companies on the OTC Bulletin Board.

Transfer Agent and Stock Registrar

Our transfer agent and stock registrar is Computershare at 250 Royall St., Canton, MA 02021.

Independent Public Accountants

Our independent public accountants are Mayer Hoffman McCann P.C. at 2301 Dupont Drive, Suite 200, Irvine, CA 92612.

ACME COMMUNICATIONS, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders

ACME Communications, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of ACME Communications, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Orange County, California
June 26, 2012

ACME Communications, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share data)

	December 31, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,118	$ 2,331
Restricted cash	50	50
Accounts receivable, net of allowance for doubtful accounts of $642 and $938 as of December 31, 2011 and 2010, respectively	3,589	5,963
Investments available-for-sale	1,269	---
Programming rights, current portion	1,593	1,648
Prepaid expenses and other current assets	696	1,184
Assets held for sale	1,618	13,377
Total current assets	10,933	24,553
Property and equipment, net	1,443	2,225
Programming rights, net of current portion	1,964	2,486
Goodwill, net	11,401	11,401
Broadcast licenses, net	3,100	3,100
Other assets	28	40
Total assets	$ 28,869	$ 43,805
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,296	$ 3,483
Accrued liabilities	1,511	6,201
Programming rights payable, current portion	2,107	1,901
Obligations under capital lease, current portion	54	51
Other liabilities, current portion	613	208
Income taxes payable	362	346
Liabilities held for sale	934	9,327
Total current liabilities	6,877	21,517
Programming rights payable, net of current portion	2,484	6,390
Obligations under capital lease, net of current portion	599	653
Other liabilities, net of current portion	149	529
Deferred income taxes	2,030	1,306
Total liabilities	12,139	30,395
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 December 31, 2011 and 2010	168	168
Additional paid-in capital	133,004	133,004
Accumulated deficit	(111,515)	(114,762)
Accumulated other comprehensive income	73	---
Treasury stock, at cost; 725,652 shares	(5,000)	(5,000)
Total stockholders' equity	16,730	13,410
Total liabilities and stockholders' equity	$ 28,869	$ 43,805

See the accompanying notes to the consolidated financial statements.

ACME Communications, Inc. and Subsidiaries
Consolidated Statements of Operations
(In thousands, except per share data)

	For the Year Ended December 31, 2011	2010
Net revenues	$ 12,907	$ 12,654
Operating expenses:		
Cost of service:		
Programming, including program amortization	7,230	7,339
Other costs of service (excluding depreciation and amortization of $753 and $918 for the years ended December 31, 2011 and 2010, respectively)	1,077	1,118
Selling, general and administrative expenses	3,359	3,265
Litigation reserve accrual (reversal)	(496)	1,157
Depreciation and amortization	753	923
Loss on disposal of assets	23	138
Corporate expenses	1,478	1,835
Operating expenses	13,424	15,775
Operating loss	(517)	(3,121)
Other expenses:		
Interest income (expense)	89	(379)
Loss from continuing operations, before income taxes	(428)	(3,500)
Income tax benefit	505	172
Income (loss) from continuing operations	77	(3,328)
Discontinued operations:		
Income (loss) from discontinued operations, before income taxes	13,285	(5,127)
Income tax expense	(988)	---
Income (loss) from discontinued operations	12,297	(5,127)
Net income (loss)	$ 12,374	$ (8,455)
Net income (loss) per share, basic and diluted:		
Continuing operations	$ 0.00	$ (0.21)
Discontinued operations	0.77	(0.32)
Net income (loss) per share - basic	$ 0.77	$ (0.53)
Net income (loss) per share - diluted	$ 0.74	$ (0.53)
Weighted average basic common shares outstanding	16,047	16,047
Weighted average diluted common shares outstanding	16,826	16,047

See the accompanying notes to the consolidated financial statements.

ACME Communications, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2009	16,772	$ 168	$ 133,004	$ (106,307)	$ ---	$ (5,000)	$ 21,865
Net loss	---	---	---	(8,455)	---	---	(8,455)
Balance at December 31, 2010	16,772	168	133,004	(114,762)	---	(5,000)	13,410
Components of Comprehensive income:							
Change in unrealized gain on investment available-for-sale	---	---	---	---	73	---	73
Net income	---	---	---	12,374	---	---	12,374
Total comprehensive income							12,447
Shareholder distribution	---	---	---	(9,127)	---	---	(9,127)
Balance at December 31, 2011	16,772	$ 168	$ 133,004	$ (111,515)	$ 73	$ (5,000)	$ 16,730

See the accompanying notes to the consolidated financial statements.

ACME Communications, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

(In thousands)

	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010
Cash flows from operating activities from continuing operations:		
Net income (loss)	$ 12,374	$ (8,455)
Add: (Income) loss from discontinued operations, net of income tax	(12,297)	5,127
(Income) loss from continued operations	77	(3,328)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Provision for doubtful accounts receivable	56	215
Depreciation and amortization	753	923
Loss on disposal of assets	23	138
Amortization of program rights	1,737	2,078
Amortization of prepaid financing costs	54	91
Deferred income tax provision	724	724
Changes in operating assets and liabilities:		
Accounts receivable	(234)	(1,009)
Prepaid expenses and other current assets	350	(1,076)
Other assets	(4)	42
Accounts payable	(702)	(104)
Accrued liabilities	(401)	1,524
Income taxes payable	(972)	6
Programming rights payable	(1,994)	(2,472)
Other liabilities	25	51
Net cash used in operating activities from continuing operations	(508)	(2,197)
Cash flows from investing activities from continuing operations:		
Purchase of property and equipment	(25)	(9)
Proceeds from sale of property and equipment	117	---
Proceeds from sale of assets - discontinued operations	11,309	---
Net cash provided by (used in) investing activities from continuing operations	11,401	(9)

See the accompanying notes to the consolidated financial statements.

ACME Communications, Inc. and Subsidiaries
Consolidated Statements of Cash Flows - Continued
(In thousands)

	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010
Cash flows from financing activities from continuing operations:		
Payment of financing costs on credit facility	$ (49)	$ (155)
Borrowings under revolving credit facility	1,049	1,155
Repayments under revolving credit facility	(1,000)	(1,000)
Borrowings (repayments) of program deferrals	(808)	462
Payments on capital lease obligations	(51)	(49)
Cash distribution to shareholders	(5,616)	---
Net cash provided by (used in) financing activities from continuing operations	(6,475)	413
Increase (decrease) in net cash from continuing operations	4,418	(1,793)
Discontinued operations:		
Net cash used in operating activities	(2,692)	(336)
Net cash provided by investing activities	775	813
Net cash provided by (used in) financing activities	(2,714)	1,595
Net cash provided by (used in) discontinued operations	(4,631)	2,072
Increase (decrease) in cash and cash equivalents	(213)	279
Cash and cash equivalents at beginning of the year	2,331	2,052
Cash and cash equivalents at end of the year	$ 2,118	$ 2,331
Cash payments for:		
Interest	$ 125	$ 104
Taxes	$ 27	$ 18
Non-cash transactions:		
Program rights in exchange for program rights payable (continuing operations)	$ 1,160	$ 1,027
Fair value of non-cash proceeds of 1,150,000 shares of LIN TV Corp unregistered common stock received in connection with the WBDT and WIWB station sales	4,584	---
Fair value of distribution of LIN TV Corp common stock to shareholders	(3,511)	---
	$ 2,233	$ 1,027

1. NATURE OF BUSINESS

The Company commenced operations in 1997 and ACME Communications, Inc. was formed as the Company's holding company on July 23, 1999, in preparation for and in conjunction with an initial public offering of its stock.

ACME Communications, Inc. (together with its subsidiaries, hereinafter, individually and collectively, "ACME" or the "Company") is a holding company with no independent operations other than through its indirect wholly-owned subsidiary, ACME Television, LLC ("ACME Television"). As of December 31, 2011, ACME Television, through its wholly-owned subsidiaries, owned and operated the following four commercially-licensed, full-power, broadcast television stations located throughout the United States, including KRWB in Roswell, New Mexico, the Company's satellite station of KWBQ:

Station - Channel	Market	Market Ranking (1)	Network Affiliation (2)
KWBQ - 29 / KRWB - 21	Albuquerque – Santa Fe, NM	45	CW
KASY - 45	Albuquerque – Santa Fe, NM	45	MNT
WBUW - 32	Madison, WI	85	CW

(1) based on television households per Nielsen Market Research for the 2011/2012 broadcast season.
(2) "CW" refers to The CW Television Network and "MNT" refers to MyNetworkTV.

In addition to the above named television stations, the Company also owns The Daily Buzz, LLC, which produces the weekday morning news and lifestyle television program *The Daily Buzz*, a nationally syndicated program which airs on approximately 200 television stations across the country.

Effective November 4, 2008, the Company's common stock was delisted from the Nasdaq Global Market and on that same day the Company filed a Form 15 with the U.S. Securities & Exchange Commission ("SEC") to deregister its common stock under Section 12 of the Securities Exchange Act of 1934. Upon the filing of the Form 15, the Company's obligation to file certain reports with the SEC, including Forms 10-K, 10-Q, and 8-K, was immediately suspended. The deregistration of the Company's common stock became effective February 1, 2009. The Company's common stock is currently quoted on the Pink Sheets®, a centralized electronic quotation service for over-the counter securities.

Sale of Stations and Other Events

On March 17, 2010, the Company entered into a three-year license and consulting agreement, effective April 1, 2010, and an option agreement with Fisher Communications, Inc ("Fisher") for the Company's Daily Buzz unit. Under the license and consulting agreement Fisher will provide oversight of the program's daily operations, license certain of the program's assets to expand the digital content opportunities and provide funding of up to $500,000 for the program's transition to wide screen high-definition broadcast. The option agreement provides Fisher with the ability to acquire a 50% interest in The Daily Buzz, LLC and, if exercised, a further option to acquire the remaining 50% interest. At December 31, 2011, Fisher had made license fee payments of $500,000 to date, with a final $250,000 payment made in January 2012, and funded in full the $500,000 transition to wide screen high-definition costs. In accordance with the option agreement, Fisher can apply 100% of the paid license fees and 50% of the transition costs against their purchase option, if exercised. Fisher's option expires on September 30, 2012

On May 28, 2010, the Company and LIN Television Corporation ("LIN") entered into a shared services arrangement and related agreements with respect to its stations KWBQ and KASY in Albuquerque-Santa Fe, NM; WBDT in Dayton, OH; and WCWF in Green Bay-Appleton, WI. Under the terms of the agreements, LIN will provide technical, engineering, promotional, administrative and other operational support services from its stations KRQE and KASA in the Albuquerque-Santa Fe market, WDTN in the Dayton market, and WLUK in the Green Bay-Appleton market. In addition, LIN will provide advertising sales services under a joint sales agreement for the Company's stations in the Dayton and Green Bay-

Appleton markets. Concurrent with the execution of these agreements, the Company entered into an option agreement, giving LIN the right to acquire any or all of the stations covered under these agreements.

On May 6, 2011, the Company completed the sale of WBXX, its station in Knoxville, TN to Lockwood Broadcast Group and on May 20, 2011, the Company completed the sale of WBDT, its Dayton, OH station and WCWF (formerly WIWB) its Green Bay-Appleton, WI station to LIN. The aggregate sales price for the three stations was $17.1 million. In connection with the sale of the Company's WBDT and WCWF stations, LIN exercised its right under their option agreement to pay approximately 50% of the combined purchase price with unregistered shares of LIN's common stock and issued the Company 1,150,000 shares of unregistered common stock valued at approximately $4.6 million. The resale of the unregistered common stock was restricted for a period of six months from the date of issuance. Also see Note 2 "*Investment Available-For-Sale*".

On June 13, 2011, the Company's Board of Directors approved a special distribution to its shareholders of record as of June 30, 2011 in the form of a cash distribution of $.35 per common share which amounted to approximately $5,616,000. The distribution was payable and paid on July 14, 2011.

On December 9, 2011, the Company's Board of Directors approved a special distribution to its shareholders of LIN unregistered common stock received in connection with LIN's purchase of the Company's television stations in Dayton and Green Bay-Appleton. A total of 850,000 shares of LIN unregistered common stock, worth approximately $3,511,000 or 74% of the shares received in the May sale transaction, was distributed pro-rata to ACME shareholders of record at the close of business on December 23, 2011 and distributed on December 29, 2011. Also see Note 2 "*Investment Available-For-Sale*".

On December 13, 2011, the Company entered into a definite agreement to sell WBUW in Madison, WI to Byrne Acquisition Group, LLC ("Byrne") for $1.8 million. The sale was approved by the FCC on February 10, 2012. The Company completed the WBUW sale on February 21, 2012 and accordingly the assets and liabilities acquired and assumed in the sale of the station are presented in Assets and Liabilities held for sale in the accompanying Consolidated Balance Sheets at December 31, 2011. Also see Note 14 "*Subsequent Events*".

On December 29, 2011, the Company entered into a settlement agreement with its former national sales representation firm in the amount of $2.0 million. See Note 8 "*Legal Proceedings*".

Discontinued Operations

The Company sold eight of its stations – KPLR (St. Louis), KWBP (Portland, OR), KUWB (Salt Lake City), WTVK (Ft. Myers-Naples) and WBUI (Champagne-Springfield-Decatur, IL) in previous periods and sold WBXX (Knoxville, TN); and both the WBDT (Dayton, OH) and WCWF (Green Bay, WI) stations on May 6, 2011 and May 20, 2011, respectively and in February 2012 sold WBUW (Madison, WI) see Note 1 above "*Sale of Stations and Other Events*". In accordance with accounting principles generally accepted in the United States of America, the accompanying Consolidated Statements of Operations and Cash Flows reflect the results of these stations as discontinued operations for all periods presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, including The Daily Buzz, LLC. All significant intercompany accounts and transactions have been eliminated for all periods presented. Segment information is not presented since all of the Company's revenues are attributed to a single reportable segment.

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. Continuing operations consist of the Company's television duopoly in Albuquerque-Santa Fe, NM and *The Daily Buzz*, its production entity in Orlando, FL. Also see Note 1 *"Discontinued Operations"* for description of the Company's discontinued entities.

In accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 855, *Subsequent Events,* or ASC 855, the Company evaluated all events or transactions that occurred after December 31, 2011 through June 26, 2012, which represents the date the Consolidated Financial Statements were available to be issued.

Reclassification

The Consolidated Balance Sheet at December 31, 2010 and the Consolidated Statements of Operations and Cash Flows for the year ended December 31, 2010 have been reclassified to conform to current year presentation in accordance with the authoritative guidance for discontinued operations.

Revenue Recognition

The Company derives revenues primarily from the sale of advertising time to local, regional and national advertisers and, to a lesser extent, from program licensing fees from other stations and distributors related to *The Daily Buzz.* 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. The Company recognizes retransmission consent fees in the period in which the Company's television shows are rebroadcasted to other networks.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash that is restricted and pledged as collateral for capital lease obligations or is escrowed in connection with pending acquisitions, including acquisitions of construction permits, is considered restricted cash.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are presented net of the related allowance for doubtful accounts which totaled $642,000 and $938,000 at December 31, 2011 and 2010, respectively. The Company does not charge interest on past due receivables. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company utilizes information available to it, including the timing of payments and the financial condition of our customers, to estimate its allowance for doubtful accounts. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company does not have a significant concentration of accounts receivable from any single customer or industry segment.

Investments Available-For-Sale

Available-for-sale investments consist of equity securities, which are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value and unrealized holding gains and losses are excluded from earnings and are reported as a separate component of comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value. Any resulting impairment is charged to other expense and a new cost basis for the security is established.

At December 31, 2011, the Company held one investment available-for-sale asset, which was comprised of the remaining 300,000 shares of LIN unregistered common stock, issued in connection with LIN's purchase of the Company's WBDT and WCWF (formerly WIWB) stations in May 2011, see Note 1. The resale of these shares was originally restricted and subject to a six-month holding period from date of acquisition which expired in November 2011. Based on the closing market price on the sale date less a discount for lack of marketability, the value of the 1,150,000 shares was approximately $4.6 million. At December 31, 2011 the value of the remaining 300,000 shares was approximately $1,269,000. The unrealized gain of the investment was approximately $73,000 at December 31, 2011 and is recorded in accumulated other comprehensive income in the Company's Consolidated Balance Sheets (see Note 12 *"Accumulated Other Comprehensive Income"*). In connection with the distribution of the 850,000 shares of LIN unregistered common stock on December 29, 2011, the Company realized a gain of $122,000 included in income from discontinued operations in the Consolidated Statements of Operations. Also see Note 1 *"Sale of Stations and Other Events"* Note 5 *"Fair Value Measurements"* and Note 13 *"Subsequent Events"*.

Concentration of Credit Risk and Fair Value of Financial Instruments

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 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 and limited exposure to any one customer. The Company provides its estimate of uncollectible accounts. The Company has not experienced significant losses relating to accounts receivable. The Company may be exposed to credit loss for amounts in excess of the Federal Deposit Insurance Corporation insurance limit of $250,000 per owner, in the event of non-performance by the institutions; however, the Company does not anticipate non-performance by these financial institutions.

The carrying amounts reported in the Consolidated Balance Sheets for accounts receivable and accounts payable approximate fair values because of the immediate or short-term maturity of these financial instruments.

Goodwill and Indefinite Life Intangible Assets

In accordance with FASB ASC Topic 350-20, *Intangibles — Goodwill and Other, Goodwill,* or ASC 350-20, Goodwill and indefinite life intangible assets are not amortized but are tested annually for impairment, or more frequently if events or changes in circumstances indicate that the assets might be impaired. In assessing the recoverability of goodwill and indefinite life intangible assets, the Company must make assumptions about the estimated future cash flows and other factors to determine the fair value of these assets.

For goodwill, the impairment evaluation includes a comparison of the carrying value of the reporting unit (including goodwill) to that reporting unit's fair value. If the reporting unit's estimated fair value exceeds the reporting unit's carrying value, no impairment of goodwill exists. If the fair value of the reporting unit does not exceed the unit's carrying value, then an additional analysis is performed to allocate the fair value of the reporting unit to all of the assets and liabilities of that unit as if that unit had been acquired in a business combination and the fair value of the unit was the purchase price. If the excess of the fair value of the reporting unit over the fair value of the identifiable assets and liabilities is less than the carrying value of the unit's goodwill, an impairment charge is recorded for the difference.

Similarly, the impairment evaluation for indefinite life intangible assets includes a comparison of the asset's carrying value to the asset's fair value. When the carrying value exceeds fair value, an impairment charge is recorded for the amount of the difference. An intangible asset is determined to have an indefinite useful life when there are no legal, regulatory, contractual, competitive, economic or any other factors that may limit the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the Company. The Company also evaluates annually intangible assets that are not being amortized to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is determined to have a finite useful life, the asset will be amortized prospectively over the estimated remaining useful life and accounted for in the same manner as intangible assets subject to amortization. The annual impairment testing date is December 31. The Company will also test for impairment between annual test dates if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is performed at a reporting unit level. An impairment loss would generally be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit.

Intangible assets with indefinite lives consist of FCC broadcast licenses and goodwill.

The Company has determined that the appropriate level to test goodwill and its FCC broadcast licenses for impairment is at the respective station market level, except for its two stations serving the Albuquerque - Santa Fe, New Mexico marketplace, which are evaluated together. The fair value at December 31, 2011 and 2010 was primarily determined, with the assistance of a third party under the direction of the Company, by evaluating discounted cash flow models and a market-based approach, including the consideration of the sales price for the WBUW (Madison, WI) station in arriving at the fair value. The assumptions in the models were based on the market clusters' projected ability to generate cash flows in various cities or nearby cities based on signal coverage of the markets. The fair value of the reporting unit and the FCC broadcast licenses contains significant assumptions incorporating variables that are based on past experiences and judgments about future performance using industry normalized information for an average station within a market. These variables would include the forecasted growth rate of each television market, including population, household income, retail sales and other expenditures that would influence advertising expenditures, market share and profit margin of an average station within a market, estimated capital start-up costs and losses incurred during the early years, risk-adjusted discount rate based on the risk inherent in the future cash flows and the likely media competition within the market area. The market-based approach used comparable company earnings multiples.

As a result of the Company's annual test for impairment of its intangible assets with indefinite lives, the Company determined that neither goodwill nor its FCC broadcast licenses had become impaired at December 31, 2011 or 2010.

Long-Lived Assets, Including Intangibles Subject to Amortization

The Company assesses the recoverability of long-lived assets at least annually or whenever adverse events or changes in circumstances indicate that impairment may have occurred in accordance with FASB ASC Topic 360-10-05, *Property, Plant, and Equipment, Impairment or Disposal of Long-Lived Assets*, or ASC 360-10-05. If the future undiscounted cash flows expected to result from the use of the related assets are less than the carrying value of such assets, an impairment has been incurred and a loss is recognized to reduce the carrying value of the long-lived assets to fair value, which is determined by discounting estimated future cash flows.

Depreciation and amortization of the Company's long-lived assets is provided using the straight-line method over their estimated useful lives. Changes in circumstances, such as the passage of new laws or changes in regulations, technological advances, changes to the Company's business model or changes in capital strategy could result in the actual useful lives differing from initial estimates. In those cases where the Company determines that the useful life of a long-lived asset should be revised, the Company will depreciate the net book value in excess of the estimated residual value over its revised remaining useful life. Factors such as changes in the planned use of equipment, customer attrition, contractual amendments or mandated regulatory requirements could result in shortened useful lives.

Long-lived assets and asset groups are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made.

Long-lived assets consist of program rights and property and equipment.

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. Generally, program rights are amortized over the life of the contract on a straight-line basis related to the usage of the program. Any reduction in unamortized costs to net realizable value is included in amortization of program rights in the accompanying Consolidated Statements of Operations. The Company evaluates estimated realizable value of program rights based on current usage and revenue performance and projected future revenue and usage of such programs. Changes in the Company's programming schedule could impact the estimated realizable value of programming. In addition, estimates of future revenue performance relate to the number of advertising spots the Company sells and the amount generated from such sales. A decrease in the number of spots sold or the amount for such sales could also impact the estimated realizable value. During the years ended December 31, 2011 and 2010, the Company recorded write-downs of program rights due to impairments of the Company's continuing stations of approximately $2,000 and $126,000, respectively.

The portion of the program rights estimated to be amortized within one year and after one year is reflected in the Consolidated 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 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, or for leasehold improvements, the shorter of useful lives or the lease term. 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 - 40 years
Broadcast and other equipment	3 - 20 years
Furniture and fixtures	5 - 7 years
Vehicles	5 years

Long-lived assets and asset groups are evaluated for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. There was no impairment charge recorded for our Continuing Stations during the years ended December 31, 2011 or 2010.

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, which the Company believes approximates fair value. Barter revenue for our continuing operations amounted to approximately $1,099,000 and $1,105,000 for the years ended December 31, 2011 and 2010, respectively. 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 based on comparable cash transactions. Barter and trade revenues are recognized when advertisements are broadcast. Merchandise or services received from airtime trade sales are charged to expense or capitalized and expensed when used.

Advertising Expenses

The Company records advertising expense when the advertising is run. Production costs associated with such advertising are expensed upon the initial air date of the advertising. Advertising expense, which consists primarily of media costs, production costs and promotion staff salaries and related costs, is included in other costs of service in the Consolidated Statements of Operations and for our continuing operations was $435,000 and $452,000, for the years ended December 31, 2011 and 2010, respectively.

Income Taxes

The Company accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*, or ASC 740. Income taxes are provided based on current taxable income and the future tax consequences of temporary differences between the basis of assets and liabilities for financial and tax reporting. The deferred income tax assets and liabilities represent the future state and federal tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred income taxes are also recognized for operating losses that are available to offset future taxable income and tax credits that are available to offset future income taxes. At each reporting period, management assesses the realizable value of deferred tax assets based on, among other things, estimates of future taxable income, and adjusts the related valuation allowance as necessary. Management makes a number of assumptions and estimates in determining the appropriate amount of expense to record for income taxes. These assumptions and estimates consider the taxing jurisdiction in which the Company operates as well as current tax regulations. Accruals are established for estimates of tax effects for certain transactions and future projected profitability of the Company's businesses based on management's interpretation of existing facts and circumstances.

ASC 740 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. A tax position that meets the "more-likely-than-not" criterion shall be measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. The Company has reviewed its tax positions and determined that an adjustment to the tax provision is not considered necessary nor is a reserve for income taxes required. When necessary, the Company would accrue interest related to uncertain tax positions as a component of interest expense and penalties as a component of income tax expense.

Income (Loss) per Share

Basic income (loss) per common share is computed by dividing net income (loss) to common stockholders by the weighted average number of common shares outstanding for the period. Diluted income (loss) per share includes the effect of the Company's outstanding stock options, if including such instruments is dilutive.

During the year ended December 31, 2011, 15,000 stock options expired or were forfeited reducing our stock options outstanding at December 31, 2011 to 778,750 shares compared to stock options outstanding at December 31, 2010 of 793,750. Stock options were not included in the computation of diluted EPS for the year ended December 31, 2010 because an inclusion of such shares would have been anti-dilutive.

Stock-Based Compensation

FASB ASC Topic 718 *Compensation — Stock Compensation,* or ASC 718**,** requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. There were no stock options granted or any other type of share-based issuances during the years ended December 31, 2011 and 2010. There was no stock-based compensation expense for continuing operations during the years ended December 31, 2011 or 2010. There was no stock-based compensation expense for discontinued operations for the years ended December 31, 2011 or 2010.

As of December 31, 2011, there was no unrecognized compensation cost related to unvested stock options.

Use of Estimates in the Preparation of Financial Statements

The preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States 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 Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates, including those related to program rights, barter revenues, bad debts, intangible assets, including its broadcast licenses, investments, income taxes, and contingencies and litigation reserves. The Company bases its estimates on historical experience and on various other assumptions that they believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions. In addition, changes in market conditions or stations' actual or expected performance could materially affect future estimated fair values of the Company's stations or of the estimated fair value of the Company's intangible assets, including the Company's broadcast licenses and goodwill.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This update clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This update is effective on a prospective basis for annual and interim reporting periods beginning on or after December 15, 2011, which for the Company is January 1, 2012. The Company does not expect that adopting this update will have a material impact on its Consolidated Financial Statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220)*. This update (1) eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity; (2) requires the consecutive presentation of the statement of net income and other comprehensive income; and (3) requires an entity to present reclassification adjustments on the face of the financial statements from other comprehensive income to net income. This update does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income nor does the update affect how earnings per share is calculated or presented. This update is required to be applied retrospectively and is effective for fiscal years and interim periods within those years beginning after December 15, 2011, which for the Company is January 1, 2012. In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income (Topic 220).* The amendment for this update is temporary and supersedes certain pending paragraphs in ASU No. 2011-05 to effectively defer only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income until the FASB has time to reconsider these reclassification requirements. Since ASU No. 2011-05 and No. 2011-12 only pertain to enhanced disclosures the Company does not expect that adopting these updates will have a material impact on its Consolidated Financial Statements.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment (Topic 350)*, to simplify how entities test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If this is the case, the entity will need to perform a more detailed two-step goodwill impairment test which is used to identify potential goodwill impairments and to measure the amount of goodwill impairment losses to be recognized, if any. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company did not adopt this update early. The Company does not expect that adopting this update will have a material impact on its Consolidated Financial Statements.

3. DISCONTINUED OPERATIONS

In accordance with accounting principles generally accepted in the United States, the accompanying Consolidated Statements of Operations and Cash Flows reflect, as discussed in Note 1, the results of the Company's disposed stations as discontinued operations for all periods presented.

Summarized financial information, in thousands, relating to the operations of these stations is as follows:

	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010
Net revenues	$ 4,859	$ 12,828
Income (loss) from operations, before impairment charges, gain (loss) on sale of assets, restructuring charges and income tax expense	250	(3,487)
Impairment charges	(95)	(145)
Gain (loss) on sale of assets	13,130	(1,391)
Restructuring charges	---	(104)
Income tax expense	(988)	---
Income (loss) from discontinued operations	$ 12,297	$ (5,127)

Assets held for sale:

	December 31, 2011	December 31, 2010
Programming rights	$ 943	$ 7,853
Property and equipment, net	416	2,833
Broadcast licenses, net	259	2,691
Assets held for sale	$ 1,618	$ 13,377

Liabilities held for sale:

	December 31, 2011	December 31, 2010
Programming liabilities	$ 934	$ 8,703
Other liabilities, including real estate promissory note on Ohio building	---	624
Liabilities held for sale	$ 934	$ 9,327

For the year ended December 31, 2010, there was no income tax expense or benefit for our discontinued operations since the current tax benefit of $940,000 which the Company recorded in 2010 representing an estimate of a tax refund to be received relating to the Company's 2010 election to amend its 2008 tax return and carry back losses. This election effectively eliminated much of the alternative minimum taxes the Company paid for the 2007 and 2003 tax years is presented as part of our continuing operations for the year ended December 31, 2010.

For the year ended December 31, 2011, the Company recorded an income tax expense for our discontinued operations in the amount of $988,000 relating to the gain on the sale of the Company's discontinued operations.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31, 2011	December 31, 2010
	(in thousands)	
Land, buildings and improvements	$ 1,339	$ 1,339
Broadcast and other equipment	12,334	12,417
Furniture and fixtures	1,739	1,736
Vehicles	87	87
Total property and equipment, at cost	15,499	15,579
Less: Accumulated depreciation and amortization	(14,056)	(13,354)
Property and equipment, net	$ 1,443	$ 2,225

Property and equipment for the Company's stations WBUW, WBXX, WBDT and WCWF (formerly WIWB) are included in the Consolidated Balance Sheets as of December 31, 2011 and 2010 in "Assets held for sale" as disclosed in Note 3 "*Discontinued Operations*".

On October 27, 2011, the Company sold its Dayton Studio building for $775,000. The Company recorded a gain of $7,000 which is included in discontinued operations in the accompanying Consolidated Statements of Operations.

The Company sold three of its broadcast towers in 2010. It sold its non-core analog towers in the Dayton and Green Bay markets to SBC Towers on October 22, 2010 for $600,000 and on November 1, 2010 sold its Madison tower and transmitter building to Gray Television for $1.4 million. The aggregate net proceeds from these sales were approximately $1.8 million and the Company used $1.1 million of these net proceeds to pay down its revolving credit agreement to a zero balance.

Included in property and equipment at both December 31, 2011 and 2010 are assets subject to capital leases with a total cost of $1,082,000 and associated accumulated depreciation of approximately $917,000 at December 31, 2010. The asset was fully depreciated at December 31, 2011.

5. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, or ASC 820, applies to certain assets and liabilities that are being measured and reported on a fair value basis. Broadly, the ASC 820 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC 820 also establishes a fair value hierarchy for ranking the quality and reliability of the information used to determine fair values. This hierarchy is as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis:

Available-for-sale securities are recorded at fair value and unrealized holding gains and losses are excluded from earnings and are reported as a separate component of comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary, results in a reduction in the carrying amount to fair value. Any resulting impairment is charged to other income (expense) and a new cost basis for the security is established.

The Company's investment in LIN unregistered common stock is classified within Level 2 of the fair value hierarchy because it is valued using market prices less a discount for lack of marketability. The Company records the investment on the Consolidated Balance Sheet at fair value with changes in fair value recorded as a component of other comprehensive income (loss) in the Consolidated Balance Sheets (see Note 13).

Under the guidance of ASC 320, "*Investments*", the Company periodically evaluates other-than-temporary impairment (OTTI) of these securities to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding impairment charge to earnings is recognized.

The Company has evaluated its investment in LIN stock as of December 31, 2011, and has determined that there were no unrealized losses that indicate an other-than-temporary impairment. This determination was based on several factors, which include the length of time and extent to which fair value has been less than the cost basis and the financial condition and near-term prospects of the issuer, and the Company's intent and ability to hold the publicly traded equity securities for a period of time sufficient to allow for any anticipated recovery in market value.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis:

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. Included in this category are goodwill written down to fair value when determined to be impaired, assets and long-lived assets including FCC broadcast licenses that are written down to fair value when they are held for sale or determined to be impaired. The valuation methods for goodwill, assets and liabilities resulting from business combinations, and long-lived assets involve assumptions concerning interest and discount rates, growth projections, and/or other assumptions of future business conditions. As all of the assumptions employed to measure these assets and liabilities on a nonrecurring basis are based on management's judgment using internal and external data, these fair value determinations are classified in Level 3 of the valuation hierarchy.

6. NOTES PAYABLE UNDER REVOLVING CREDIT FACILITY

The Company had a revolving credit facility (the "Revolver") which was secured by substantially all of the Company's assets. The loan agreement matured on May 8, 2011. In connection with the Company's WBXX sale on May 6, 2011, see Note 1 "*Sale of Stations and Other Events*", the Company repaid and terminated its Revolver. At December 31, 2010, the Company had no outstanding borrowings under its Revolver.

Debt issuance costs associated with the procuring and amending the Company's credit facilities, including loan fees and related professional fees, are included in other current assets and are amortized on a straight-line basis, which approximates the effective interest method, over the term, including amended terms, of the facilities. At December 31, 2011, the Company did not have any capitalized debt issuance costs as the Company's Revolver matured on May 8, 2011.

7. NOTES PAYABLE SECURED BY TRUST DEED

On March 26, 2010 the Company purchased its Dayton studio facility for $950,000. The Company financed the purchase with a $650,000 Promissory Note with interest at seven percent (7%) per annum on the unpaid principal balance, payable in thirty six (36) equal consecutive monthly installments of approximately $5,000 with all remaining principal and interest due and payable on April 3, 2013. On October 27, 2011, the Company sold its Dayton studio facility and paid off the Promissory Note.

8. 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 under non-cancelable operating leases, including approximately $227,000 of accrued lease termination costs, for the Company's continuing operations as of December 31, 2011 are:

For the year ended December 31:	In thousands
2012	$ 538
2013	200
2014	35
2015	20
2016	18
Thereafter	101
Total	$ 912

Total rental expense for continuing operations under operating leases for the years ended December 31, 2011 and 2010 was approximately $298,000 and $340,000, respectively.

Obligations Under Capital Leases

As of December 31, 2011, certain equipment was leased under capital equipment facilities. Future minimum lease payments for the Company's continuing operations under capital leases as of December 31, 2011 are:

For the year ended December 31:	In thousands
2012	$ 85
2013	85
2014	85
2015	85
2016	85
Thereafter	398
Total minimum lease payments	823
Less: Amount representing interest	(170)
Present value of minimum lease payments	653
Less: Current portion	(54)
Long-term portion	$ 599

Programming Rights Payable

Commitments for programming rights that have been executed, but which have not been recorded in the accompanying Consolidated Financial Statements, as the underlying programming is not yet available for broadcast, were approximately $1,348,000 for the Company's continuing operations for 2011.

Maturities on the Company's programming rights payable for continuing operations (including commitments not recognized in the accompanying Consolidated Financial Statements due to the lack of current availability for broadcast) for each of the next five years are:

For the year ended December 31:	In thousands	
2012	$	1,849
2013		1,563
2014		700
2015		503
2016		224
Thereafter		479
Program rights payable maturities	$	5,318

In addition to the above commitments, included in our program rights payable at December 31, 2011 is approximately $603,000 of deferred program payment obligations scheduled to be repaid by the Company through and including 2015 but which accelerate upon the sale of the obligated stations.

Other Commitments

The Company has other commitments for goods and services not included in its Consolidated Balance Sheet, including its network affiliation agreements with The CW and MyNetworkTV networks, agreements for ratings services and license fees for websites. Those commitments for continuing operations for the next five years are as follows:

For the year ended December 31:	In thousands	
2012	$	1,395
2013		586
2014		33
Thereafter		-
Total	$	2,014

Legal Proceedings

The Company was involved in a lawsuit brought by its former national sales representation firm in 2009. On March 21, 2011, the Company received an unfavorable judgment in connection with the above mentioned lawsuit. The order and decision granted by the New York Supreme Court granted Plaintiff's motion for summary judgment and awarded the plaintiff a $2.4 million breakup fee as well as interest thereon, and other costs and disbursements to be submitted by plaintiff.

In connection with the above judgment the Company recorded a litigation reserve, which was included in accrued liabilities in the accompanying Consolidated Balance Sheet as of December 31, 2010, for approximately $3.5 million consisting of the "break-up" fee, together with interest at 9% per annum as well as an estimate of plaintiff's costs and other disbursements. On December 29, 2011, the Company settled the above litigation for $2.0 million including legal fees and interest. As a result and upon settlement of the litigation the Company reversed $1.5 million of its litigation accrual reserve at December 31, 2011, of which approximately $496,000 is recognized in operating expenses in the Consolidated Statements of Operations from continuing operations.

9. INCOME TAXES

The income tax (benefit) expense consists of the following:

	Year ended December 31, 2011	Year ended December 31, 2010
	(In thousands)	
Continuing Operations:		
Current:		
Federal	$ (1,125)	$ (940)
State	(104)	44
Total current tax expense (benefit)	(1,229)	(896)
Deferred:		
Federal	$ 644	$ 644
State	80	80
Total deferred tax expense (benefit)	724	724
Total income tax expense (benefit)	$ (505)	$ (172)
Discontinued Operations:		
Current:		
Federal	$ 1,125	$ ---
State	(137)	---
Total current tax expense	988	---
Deferred:		
Federal	$ ---	$ ---
State	---	---
Total deferred tax benefit	---	---
Total income tax expense	$ 988	$ ---

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

	Year ended December 31, 2011	Year ended December 31, 2010
	(In thousands)	
Tax benefit at U.S. federal statutory rate	$ (146)	$ (1,877)
State income taxes, net of federal tax expense (benefit)	(24)	124
Increase (decrease) in valuation allowance	(190)	2,197
Refund of AMT credits	---	(940)
Other expense (benefit)	(145)	324
Income tax benefit	$ (505)	$ (172)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are summarized as follows:

	Year ended December 31, 2011	Year ended December 31, 2010
	(In thousands)	
Deferred tax assets:		
Accrued vacation	$ 42	$ 66
AMT credits	524	524
Bad debt and other reserves	245	359
Deferred income	43	92
Litigation reserve	---	1,338
Deferred compensation	1,239	1,239
Intangible amortization	377	2,484
Net operating loss carryforward	33,020	34,242
Other	200	7
Total deferred tax assets	35,690	40,351
Less: valuation allowance	(35,473)	(40,145)
Deferred tax assets	217	206
Deferred tax liabilities:		
Property and equipment depreciation	(31)	(207)
Intangible amortization	(2,029)	(1,305)
Other	(187)	---
Deferred tax liabilities	(2,247)	(1,512)
Net deferred income tax liabilities	$ (2,030)	$ (1,306)

In assessing the realizability of deferred tax assets, management considered whether it is more likely than not that some portion or all deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which the differences become tax deductible. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes that it is not more likely than not that the deferred tax assets will be realized. Accordingly, the Company has recorded a valuation allowance of $35.5 million and $40.1 million, respectively as of December 31, 2011 and 2010. At December 31, 2011, the Company had, for federal and state tax purposes, net operating loss carryforwards of approximately $87.7 million that expire at various dates through 2031. The Company has established a full valuation allowance against its deferred tax assets, including the net operating loss carryforwards, due to the uncertainty surrounding the realization of such assets.

The Company is subject to taxation in the United States and various states and is generally open to examination from the year ended December 31, 2007 forward.

10. DEFINED CONTRIBUTION PLAN

In 1998, 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 50% of their annual salary, but may not exceed the annual maximum contribution limitations established by the Internal Revenue Service. The Plan provides for the Company to match 50% of the amounts contributed by each participant, but not match participants' contributions in excess of 6% of their compensation per pay period. The Company suspended its matching contributions effective January 1, 2009 and, accordingly, there were no matching contributions or expense in the years ended December 31, 2011 and 2010.

11. STOCK OPTION COMPENSATION

The Company's 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 to give the Company's flexibility to structure future incentives. The Company's employees, officers, directors, and consultants may be selected to receive awards under the plan.

A maximum of 4,200,000 shares of the Company's common stock may be issued under the plan, (approximately 26% of the Company's current outstanding shares). As of December 31, 2011, 3,421,250 shares are reserved and available for future exercises of stock options. 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 the Company's 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.

A summary of the status of the Company's 1999 Stock Incentive Plan, and changes for the years ended December 31, 2011, and 2010 is presented below:

	Options	Weighted Average Exercise Price
Outstanding at December 31, 2009	987,100	$ 7.85
Granted	---	---
Exercised	---	---
Forfeited	(193,350)	13.47
Outstanding at December 31, 2010	793,750	$ 6.48
Granted	---	---
Exercised	---	---
Forfeited	(15,000)	7.09
Outstanding at December 31, 2011	778,750	$ 6.47
Exercisable at December 31, 2011	778,750	$ 6.47

All stock options outstanding at December 31, 2011 were exercisable and are summarized in the following table:

Range of Exercise Prices				Options Outstanding Number Outstanding at December 31, 2011	Weighted Average Remaining Contractual Life	Intrinsic Value of In the Money Outstanding Options at December 31, 2011	Weighted Average Exercise Price
$	4.89			20,000	4.97	$ -	$ 4.89
$	5.72	- $	6.00	377,125	3.59	-	5.99
$	6.95	- $	7.99	381,625	3.54	-	7.03
				778,750	3.60	$ -	$ 6.47

Range of Exercise Prices				Options Exercisable Number Exercisable at December 31, 2011	Weighted Average Remaining Contractual Life	Intrinsic Value of In the Money Exercisable Options at December 31, 2011	Weighted Average Exercise Price
$	4.89			20,000	4.97	$ -	$ 4.89
$	5.72	- $	6.00	377,125	3.59	-	5.99
$	6.95	- $	7.99	381,625	3.54	-	7.03
				778,750	3.60	$ -	$ 6.47

The values of the Company’s options were calculated at the date of grant using the Black-Scholes option-pricing model. No options were granted during the years ended December 31, 2011 and 2010 and no options were exercised during the years ended December 31, 2011 or 2010.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income is the combination of accumulated net unrealized gains or losses on investments available-for-sale, which at December 31, 2011 consists of 300,000 shares of LIN unregistered common stock which were issued in connection with LIN’s purchase of the Company’s WBDT and WIWB stations - also see Notes 1 “*Sale of Stations and Other Events*” and Note 13 “*Subsequent Events*”.

The carrying value of the Company’s investment in LIN unregistered common stock, has fluctuated and the respective unrealized gains and losses are recorded in accumulated other comprehensive income in the Company’s Consolidated Balance Sheets and Statement of Stockholders’ Equity. As of December 31, 2011 the component of accumulated other comprehensive income is as follows:

	December 31, 2011	December 31, 2010
Unrealized gain on investment available for sale	$ 73	$ ---
Ending Balance	$ 73	$ ---

13. SUBSEQUENT EVENTS

On February 21, 2012, the Company completed its sale of station WBUW in Madison, WI to Byrne for approximately $1.8 million in cash.

On March 22, 2012, the Company's Board of Directors approved a special distribution to its shareholders of record as of April 4, 2012 in the form of a cash distribution of $.22 per common share which amounted to approximately $3,530,000 and the remaining 300,000 shares of LIN unregistered common stock (.018695 shares of LIN unregistered common stock per every common share of the Company's stock) received in connection with LIN's purchase of the Company's television stations in Dayton and Green Bay-Appleton. Both, the cash distribution and LIN stock distribution were paid and distributed on April 10, 2012. Also see Note 2 "*Investment Available-For-Sale*".

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