

FINAL TRANSCRIPT

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ATV - Q2 2009 ACORN INTERNATIONAL INC Earnings Conference Call

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James Hu

Acorn International Incorporated - CEO

Gordon Wang

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CONFERENCE CALL PARTICIPANTS

David Garso

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John Ma

Roth Capital Partners - Analyst

Richard Safranek

Wafra Investment Group - Analyst

Steven Monticelli

Mosaic Investments - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the ATV earnings conference call. My name is Ann and I will be your coordinator for today's call. (Operator Instructions) As a reminder this conference is being recorded for replay purposes. At this time all participants are in listen-only mode. We will be facilitating a question-and-answer session following the presentation.

I would now like to turn the presentation over to Chen Fu, Director of Investor Relations of Acorn International. Please proceed.

Chen Fu - Acorn International Incorporated - Director IR

Hello, everyone, thank you for joining us today for our second quarter 2009 earnings conference call. With me today are Mr. James Hu, Chief Executive Officer, and Mr. Gordon Wang, Chief Financial Officer. After our prepared remarks we will open the line for questions. As a reminder this conference call is being recorded. A live webcast and replay of this conference call will be available in Investor Relations section of our website. Before we continue, I would like to remind you that our discussion today will contain forward-looking statements. Forward-looking statements include, among others, those regarding Acorn's anticipated future media purchases, revenue mix and operating results. Acorn's business involves a number of inherent risks and uncertainties, as such, actual results may be materially different from the views expressed or anticipated results described today.

A number of potential and risks and uncertainties are outlined in the Company's public filings with the US Securities and Exchange Commission. Acorn International does not undertake any obligation to update any forward-looking statements, except as required by applicable law. On the call today we will also mention non-GAAP financial measures during the discussion of our performance. Reconciliation of those measures to comparable GAAP information can be found in the second quarter 2009 earnings release that was distributed earlier. Now please allow me to turn over the call to our CEO, Mr. James Hu . (spoken in foreign language)



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James Hu - *Acorn International Incorporated - CEO*

Thank you, James. In the interests of time, please allow me to comment on the Company's financial and operational results on behalf of our CEO, Mr. James Hu. Despite the second quarter being seasonally slow, our business continued its past recovery. We achieved top-line growth of 15.9% and significantly reduced the net loss from continuing operations from the same period last year. Moreover, our gross profit margins grew by 3.6 percentage points from 48.5% to 52.1%. These results built on our successful performance in the first quarter and reflect our renewed focus on developing and marketing proprietary products and on improving media efficiency through more prudent media purchasing. We also continue to enhance our knowledge about our customers and employ targeted direct marketing through effective customer database mining.

Based on our progress in the first half of this year, we are confident in our corporate strategy which has placed Acorn on the resumed growth path and our sales and marketing platform is growing stronger, more efficient and more profitable. As the leader in China's TV direct sales industry, our direct sales programs air on 46 channels, 34 of which are national, including five national CCTV channels. This give us the ability to reach over 90% of TV households in China, or approximately 500 million people. Our integrated platform combines TV direct sales with a distribution channel that covers 20,000 retail outlets, catalog sales, internet sales, outbound calls, and third party bank channels to create powerful synergies and enable successful products to scale their sales into region national consumer market. We have an unmatched ability to help new products achieve broad adoptions and profitability in a short period of time.

As part of our renewed strategy to growing proprietary branded products, we focus our efforts on developing our English learning products such as Ozing and Meijin, our own branded cosmetic lines and branded mobile phones in 2009. The recovery of Ozing sale has been particularly impressive and demonstrates the effectiveness of our multi-channel marketing and sales platform. Second quarter Ozing sales nearly tripled from the corresponding quarter last year. The growth in Ozing includes sales from our touch reader product series, which we introduced in third quarter 2008. Sales of Meijin, our electronic dictionary, grew 12.4% for the quarter. Our student related products have continued as the main drivers of growth due to improved technology, intensive TV marketing and consolidated distribution channels.

We sell our products through direct sales channel, as well as a third party distributors and focus on quality, advanced functionality and competitive pricing. Our cosmetic products segment represents a second area of expansion. For the quarter cosmetic sales grew more than 50%, driven mainly by the strong performance of our Cobor branded cosmetics line and were the largest contributor to direct sales in the quarter. We plan to continue to expand our focus on cosmetics, as this category lends itself to repeat customers. We have been promising early success with a [Dr Cell] cosmetics brand and Maufa, a popular line of hair dye products from Taiwan. Those products have created excellent customer satisfaction rate of over 90%. We're also pleased with our progress in developing our third party bank sales. As a promising new sales channel, for the second quarter of 2009 our third party bank sales contributed to \$3.4 million of revenue, an increase of 69.1% from \$2.0 million in second quarter of 2008.

We also added eight new banking partners to the 16 partners we had in the first quarter of 2009 and intend to continue establishing new cooperative relationship. We're encouraged by recent initiatives to expand our catalog sales to more effectively stimulate continuity business by including these catalogs with product shipment. We believe more effective customer database mining will help us better track sales and encourage repeat customer sales. Our handset sales grew 28.5% year on year due to the successful marketing of our Uking 8300 series in the second quarter. Despite an overall decline in consumer electronic sales in the first half of this year, our mobile phone handsets continue to grow, leveraging on Acorn's effective multi channel marketing and distribution platform.

In the second half of 2009 we expect to launch what we believe will be the first dual-band GSM and W-CDMA cell phone for the domestic Chinese market under the Uking brand, which will further solidify our position in an otherwise competitive mobile handsets market. Following regulation banning of TV advertisement for thought tracking software products, we made a decision to divest 33% of our ownership in Yimeng in the second quarter of 2009. We received \$15.3 million in dividends and \$10.5 million in cash for a stake in Yimeng on an original investment of \$160,000 in December, 2005 and retained the remaining 18%



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as a long-term investment. We believe that the divestiture will sharpen our strategic focus on the synergy of our on air and off air marketing platform.

Regarding expected [STARF] new regulations on TV direct sales industry, we continue to monitor development in this area and welcome the establishment and enforcement of stricter rules in this industry as ways to raise the entry barriers and eliminate unscrupulous (inaudible) players. In summary, we're encouraged by our improved operational performance in the second quarter, which provide us with a confidence that our Company has returned to a path of sustainable growth and profitability in 2009. While we still consider Ozing and Meijin as the main drivers of growth for the year, we expect to see increased contribution from our cosmetics products and mobile handsets. By continue to execute along our strategy, we're confident of our ability to deliver a remarkable financial turnaround for 2009 and reemerge as the clear industry leader in the TV direct sales industry. This concludes James' remarks. Now I would like to transfer the call to Gordon.

Gordon Wang - *Acorn International Incorporated - CFO*

Thank you. Hello, everyone. I will now review our financial performance for the second quarter of 2009. Before we proceed, as I have mentioning every quarter, I would like to remind you that because of seasonality in the sales of some of our products we'll focus on year on year and not a sequential quarterly comparison. Also as a result of 33% equity interest disposal of Yimeng described above, Yimeng has been reported as a discontinued operation. Accordingly, the Company's consolidated statements of operations separated the discontinued operations from our historical numbers presented. For the second quarter of 2009, total net revenues grew 16% to \$49 million from \$42.3 million in the second quarter of 2008. Direct sales contributed a 74.4% or \$36.4 million to total net revenue and remained approximately level with the second quarter of 2008. Gross profit for the quarter was \$25.5 million up 24.3% from \$20.5 million in the second quarter of 2008.

Gross margin was 52% up from 48.5% a year ago. Gross margin for direct sales for the second quarter of 2009 was 59.7% up from 51.1% in the same period last year. The increase in gross margin was largely due to the increase in sales of products with higher gross margins, such as cosmetics and Uking 8300 series. Gross margin for distribution sales for the second quarter of 2009 was 29.9%, down from 32.3% in the same period last year. The decrease in gross margin was due to the addition of lower margin mobile handset sales from the consolidation of Yiyang Yukang. Our media return calculated as the gross profit of advertising expenses, a benchmark Acorn uses to measure return on multiple sales platform of 1.76 in the second quarter of 2009, up from 1.13 in the second quarter of 2008. Other selling and marketing expenses increase 12.9% to \$8.4 million from \$7.4 million a year ago.

The increase was mainly due to the amortization of intangible assets related to the acquisition of Yiyang Yukang and the increase in shipping cost -- in shipping, packaging and printing costs. Due to onetime litigation cost and to a lesser extent the increase of salaries and benefits, general and administrative expenses were \$8.6 million in the second quarter, a 37% increase from \$6.3 million in the second quarter of 2008. Other operating income was \$1.4 million down from \$2 million a year ago. As a result of these factors loss from operations was \$4.6 million as compared to a loss of \$9.3 million in the prior period. Share based comparison -- share based compensation expenses was \$0.8 million compared to \$1.2 million for the second quarter of 2008. Excluding share based compensation expenses, non-GAAP loss from operations for the second quarter of 2009 was \$3.8 million compared for a loss from operations of \$8.2 million for the same period the last year.

Net income attributable to holders of ordinary shares was \$11.4 million compared to \$7.8 million loss for the second quarter of 2008. We continue to maintain a healthy cash balance. As of June 30, 2009, Acorn's cash and cash equivalents totalled \$128.9 million, a decrease of \$36.4 million from March 31, 2009. The change was mainly due to the [disconsolidation] of Yimeng and to the performance-based earn-out payment of Yiyang Yukang of \$6.7 million. Given the Company's strong financial performance for the first half of 2009 and the positive outlook for the remainder of the year, we reaffirm our guidance for the net revenue in the range of \$310 million to \$350 million and net income attributable to holders of ordinary shares, excluding share-based compensation expenses and investment income to between \$14 million and \$16 million, in line with Company statements in May, 2009.



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These estimates are subject to change. And also I would like to remind you that our operating results in each period are impacted significantly by mix of the product and services sold in the period and the platforms on which they are sold. With that I would like to conclude our formal presentation. We will now be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from the line of [David Garso from Advisor Search Group]. Please proceed.

David Garso - Advisor Search Group - Analyst

Yees, sirs, thanks for your synopsis of events. With all of the cash and cash equivalents you have, do you plan on using any of that to force the growth through acquisitions?

Gordon Wang - Acorn International Incorporated - CFO

Sure, we have a -- . Yes, we -- as you know, that Acorn's model has been always development of new product and brands and it an accretive model in the past, although the acquisition historical has been in the -- more in the product -- product type of companies and in the smaller type of amount. And they also involve a joint venture. And the -- so we continue to -- to execute on such a business model basically, where we'll look at the products that will fit into our model and particularly in the cosmetic -- cosmetics and health and beauty sector. And in addition in term of the new type of sales platform such as (inaudible) platform, such as the catalog, radio and the internet, et cetera and we will also actively looking at the opportunities and the -- so those are the -- but currently specifically we don't have any specific target to discuss.

David Garso - Advisor Search Group - Analyst

Thank you.

Operator

And the next question comes from the line of John Ma, Roth Capital Partners.

John Ma - Roth Capital Partners - Analyst

Good evening, Gordon. (inaudible - technical difficulty) Have a couple of questions. First question to Gordon is that we noticed you have -- your short-term secur -- investment has gone up in the second quarter. I'm just curious how much income you generate -- what is your investment income in the second quarter?

Gordon Wang - Acorn International Incorporated - CFO

The investment income from -- from second quarter was not significant. I believe it's just a couple hundred thousand US dollar.

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John Ma - Roth Capital Partners - Analyst

Okay. Next question is back to your guidance. You guided next -- for the whole year to -- competent to deliver \$210 million to \$215 million revenues. Now the first two quarters so far you've done \$136 million. So looks like your revenues are highly back-end-loaded. So how much confidence or visibility do you have for the next two quarters. (spoken in foreign language)

James Hu - Acorn International Incorporated - CEO

(spoken in foreign language)

Chen Fu - Acorn International Incorporated - Director IR

Let me just pause a moment to translate. The question from John was the -- our ability or confidence to meet the revenue guidance of \$310 million to \$350 million. And in response to that James' answer was coming up the third quarter is actually one of our strongest revenue or earnings seasons throughout the year and it's largest contributor to our total revenues for -- throughout the year and for the -- for the third quarter we are fairly confident that on one hand the ELP Ozing business will be the strongest season, traditionally so, and also there may be also upsides from -- coming from the cosmetics business and also the -- with the recovery of mobile handsets in -- starting in July and August in a domestic market and as well as the launch of our proprietary Uking mobile handsets model we are fairly confident that we will be able to meet that guidance, revenue guidance for the full year.

John Ma - Roth Capital Partners - Analyst

Thank you. If I may ask one more question. I know you only allow two questions, but it seems like your cosmetics business has grown quite strong and now going forward in second half, will we see (inaudible) be your biggest revenue contributor? (spoken in foreign language)

James Hu - Acorn International Incorporated - CEO

(spoken in foreign language)

Chen Fu - Acorn International Incorporated - Director IR

The question is on the importance of the cosmetics product segment for Acorn going forward. In response to that, Acorn -- James' response is that it is, since the initiatives that we have launched in the last year, we have (inaudible) amount of resources, energy and development in cosmetics and we've seen really positive progress in the first half of this year. And in looking into the future, we are still fairly positive or confident that it is going to be more than likely in at least the top three product segments for us and the sales that we have so far generated are actually mostly coming from a direct sales channels, so with the -- with the continuing development we expect to increase our sales on the distribution channel for cosmetics. So it is very likely so that the cosmetics will become a very important business segment for us.

James Hu - Acorn International Incorporated - CEO

(spoken in foreign language)

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Chen Fu - *Acorn International Incorporated - Director IR*

Regardless of discussion of TV on the direct sales channel or distribution channel, cosmetics segment will be a very important business for Acorn in the remaining of the year and forward.

James Hu - *Acorn International Incorporated - CEO*

(spoken in foreign language)

Chen Fu - *Acorn International Incorporated - Director IR*

Given that cosmetics is a consumer related business and the efforts that we have deployed in, whether it is in E-commerce or third party bank channels or catalogs, we have accumulated a wealth of customer database. Through the effective leveraging of customer database data mining we will -- a very confident cosmetics will be a very important business segment going forward.

John Ma - *Roth Capital Partners - Analyst*

Thank you.

Operator

And the next question comes from the line of Richard Safranek with Wafra Investment Group, please proceed.

Richard Safranek - *Wafra Investment Group - Analyst*

Good morning, most of my questions pertain to the balance sheet. My first question regards the Yimeng sale. You were carrying it in the cash and cash equivalent section of the balance sheet. Why wasn't that carried as a long-term investment? It was a private Company and presumably it was an illiquid investment. Why -- why was it carried at cash and cash equivalence?

Gordon Wang - *Acorn International Incorporated - CFO*

No, actually it is carried -- let me extend to you the two things, I think, relate to Yimeng (inaudible). Some other of you may have the same question. They -- they -- the 18% of remaining interest it is carried as a long-term investment on the balance sheet. And the -- the cash changes from previous quarter right now result at \$128 million for to be held previously Yimeng has roughly about \$40 million, which is \$40 million consolidated into our balance sheet. Right now we already received roughly \$7.5 million of the dividend payments. And the -- .

Richard Safranek - *Wafra Investment Group - Analyst*

I'm sorry, I'm sorry, how much of dividend payments did you receive?

Gordon Wang - *Acorn International Incorporated - CFO*

Already got \$7.5 million and the remaining 17.7 -- \$17.5 million to be received it is also on the balance sheet on the -- it is also on the balance sheet under -- under prepaid expenses and on the current, other current assets, on that line, which is increased from \$13 million to \$26 million on that line. That is also including the -- the \$10 million -- the \$10 million from the stake from the disposal and also additional \$7.5 million from the dividend payments. So basically what you see that -- .

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Richard Safranek - *Wafra Investment Group - Analyst*

But -- but prior to the transaction, shouldn't you have been carrying it at cost? You should have been carrying it at cost in your long-term investment line.

Gordon Wang - *Acorn International Incorporated - CFO*

That's right. It is carrying cost. It is very low cost.

Richard Safranek - *Wafra Investment Group - Analyst*

I know, I know. But from an accounting standpoint it should have been carried in the long-term investment lines at cost, so that when you completed this transaction, this should have been a markup in cash and a markup in your long-term investments.

Gordon Wang - *Acorn International Incorporated - CFO*

This is exactly what is happening. That is why there's -- there's actually -- but at previously the cash was before deconsolidating co-ownership because it is control interest. And so what you are defining exactly right. And so the cash changes. So there is two changes, one is on the cash balance changes and one is actual receiving cash, we received more cash. But the other one is also because of the deconsolidation, then the full amount it is not on the balance sheet. And on the long-term investment was previously was a very small part and now it has increased to \$6.4 million something, which is a increase of \$4.2 million which the 18% interest.

Richard Safranek - *Wafra Investment Group - Analyst*

Yes. That is in the investment affiliates not long-term investments. What is -- what are these long-term investments on the balance sheet?

Gordon Wang - *Acorn International Incorporated - CFO*

The long term investments is the -- is our investment, principal (inaudible) fixed income investments.

Richard Safranek - *Wafra Investment Group - Analyst*

Okay. The other question was regarding your earn-out payments to Yiyang Yukang. How many -- what's the current outstanding balance if they hit all their targets, how much more do you have to pay out to them?

Gordon Wang - *Acorn International Incorporated - CFO*

We have a full disclosure we can send you again, but basically roughly we already paid cash plus shares, equivalent of shares roughly about \$20 million and there will be remaining maximum additional -- .

Richard Safranek - *Wafra Investment Group - Analyst*

\$24 million.

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Gordon Wang - *Acorn International Incorporated - CFO*

\$24 million, that's right. \$24 million. And if they meet their earnings target for this year 2009 and the 2010.

Richard Safranek - *Wafra Investment Group - Analyst*

Okay. And just going back to the dividends on Yimeng. You've received all the dividends in full, the \$7.5 million?

Gordon Wang - *Acorn International Incorporated - CFO*

No, we received half of it right now so far.

Richard Safranek - *Wafra Investment Group - Analyst*

Okay. And the last question on that is in your press release you said that you would receive \$15.5 million for the Yimeng disposal and in this press release on your earnings you said you booked a onetime gain of \$14.4 million. What's the difference?

Gordon Wang - *Acorn International Incorporated - CFO*

Actually this is a good question. Actually we -- there is actually a change of structure of the -- of this transaction. The total consideration still remains the same and the -- they -- but they previously the first press release the dividend -- the dividend part was smaller. The dividend income was, I believe, was -- no the dividend increased to 15. -- to \$15 million and the disposal of 33% increased to \$10 million. Previously, I believe, was 15 something the net. So they -- there is the changes -- the changes of this structure of the payments was -- was because of the -- for the optimization of the tax.

Richard Safranek - *Wafra Investment Group - Analyst*

Okay. I have a few more questions, but I'll jump back in the queue.

Operator

And the next question comes from the line of Steven Monticelli with Mosaic Investments.

Steven Monticelli - *Mosaic Investments - Analyst*

Ni hao. Just to continue on the last caller's question, is this the case that previously that business was consolidated throughout your balance sheet and so its cash balance was your -- part of your total cash balances?

Gordon Wang - *Acorn International Incorporated - CFO*

That's right.

Steven Monticelli - *Mosaic Investments - Analyst*

And subsequent to the sale it's now recorded on a single line on your balance sheet.

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Gordon Wang - *Acorn International Incorporated - CFO*

Yes, that's right. So previously the roughly \$40 million of cash before the transaction is on our balance sheet and now it is on the investment in affiliates. We only have 18%. And then we will get additional roughly about \$25 million from this transaction. And so they on a -- on a -- before announcing the transaction, for balance sheet you can see there will be seems to be a decrease of \$15 million, roughly \$15 million less.

Steven Monticelli - *Mosaic Investments - Analyst*

Okay. And then in describing the consideration yet to be received, if I understood you correctly, the line item called other prepaid expenses and current assets includes \$17 million of cash plus cash dividends that have yet to be received.

Gordon Wang - *Acorn International Incorporated - CFO*

That's right.

Steven Monticelli - *Mosaic Investments - Analyst*

Okay. So when I -- when I total your cash and investments, I get \$160 million, which is \$128 million cash and equivalence, about \$11 million short-term investments, \$17 million embedded in the \$26 million for prepaid expenses and current assets That amount you'll be receiving. And finally \$5 million for long-term investments. Is that math correct?

Gordon Wang - *Acorn International Incorporated - CFO*

That math is correct, yes.

Steven Monticelli - *Mosaic Investments - Analyst*

Okay.

Gordon Wang - *Acorn International Incorporated - CFO*

The \$5 million was a book -- the original book was -- cost was \$10 million and supposedly there is a (inaudible). Right now is -- there is no interest payment, so basically right now it is write-down of 5 million something.

Steven Monticelli - *Mosaic Investments - Analyst*

Okay. So that \$5 million might turn out to be greater than \$5 million ultimately?

Gordon Wang - *Acorn International Incorporated - CFO*

Yes.

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Steven Monticelli - *Mosaic Investments - Analyst*

Okay. And so taking the \$5 million as it is, that is \$160 million. Just to clarify, you have \$29 million approximately ADS?

Gordon Wang - *Acorn International Incorporated - CFO*

Yes, you -- almost \$30 million on fully diluted basis.

Steven Monticelli - *Mosaic Investments - Analyst*

Okay. I want to clarify that because the -- the press release shows the what looks to be the ordinary shares described as ADS.

Gordon Wang - *Acorn International Incorporated - CFO*

The -- that's correct. The income -- yes, it is ordinary shares. The \$89 million is ordinary shares.

Steven Monticelli - *Mosaic Investments - Analyst*

Ordinary. Right. Okay. So it's actually -- cash per share is actually \$6.00 approximately, when you include the \$17 million that is in your prepaid line.

Gordon Wang - *Acorn International Incorporated - CFO*

That's right.

Steven Monticelli - *Mosaic Investments - Analyst*

Okay. I have other questions, so I'll get back in the queue. Thank you.

Gordon Wang - *Acorn International Incorporated - CFO*

Sure.

Operator

And the next question comes from the line of Richard Safranek with Wafra Investment Group, please proceed.

Richard Safranek - *Wafra Investment Group - Analyst*

Just on follow on the previous caller's questions about the cash on the balance sheet. Your -- your -- even when you net out your liabilities you're trading below the net cash on your balance sheet. You had a share repurchase going, I guess, it ended in May. Is there -- are there any plans to extend that?



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Gordon Wang - *Acorn International Incorporated - CFO*

Right now we don't have a plan, (inaudible) plan to make a share repurchase, partly because the -- the liquidity for the -- for the stocks was not too good.

Richard Safranek - *Wafra Investment Group - Analyst*

Right.

Gordon Wang - *Acorn International Incorporated - CFO*

And -- .

Richard Safranek - *Wafra Investment Group - Analyst*

Given -- given that it's so illiquid, why not consider a special dividend to shareholders. I mean, and for this reason, when I look at the Shanghai Composite Index year-to-date it is up 55%, the Hang Seng China Equity Index is up 46% and your stock is up less than 1% this year.

Gordon Wang - *Acorn International Incorporated - CFO*

Yes, I understand -- I see the -- right now we -- there is some -- some request such as from minority shareholders like you and I'm proposing and we -- next board meeting we may -- we may have a discussion on this matter and so -- so, I mean, so far we don't have any plan.

Richard Safranek - *Wafra Investment Group - Analyst*

Given -- given the illiquidity of your shares I would highly encourage you to consider a special dividend.

Gordon Wang - *Acorn International Incorporated - CFO*

Sure. And we will relay this message to -- to our directors and also other parties.

Richard Safranek - *Wafra Investment Group - Analyst*

Good, thank you.

Operator

And the next question comes from the line of Steven Monticelli with Mosaic Investments, please proceed.

Steven Monticelli - *Mosaic Investments - Analyst*

Yes, now a business question. Can you speak to how much of your advertising expense for the year is -- is already locked in, in terms of rate? And how that rate compares in 2009 to 2008.

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Gordon Wang - *Acorn International Incorporated - CFO*

I give you just a quick response and I will like James to comment on the -- on the trend of the pricing. We have pretty much locked in the commitments for advertising for the full year, probably 80% to 90%. It will depend on the -- on the performance of our product in the third quarter, this quarter not the next quarter. If there any great excellent performance, some of the product we may purchase additional advertising from the open market. But so far, I mean, we have already made the commitment which is a total -- the total year budget is \$17 million and we already made that commitment and it's locked in the price. And James will comment on the pricing trend .

James Hu - *Acorn International Incorporated - CEO*

(spoken in foreign language)

Chen Fu - *Acorn International Incorporated - Director IR*

We've already made the commitment on \$70,000 -- \$70 million in advertising expenses for 2009 and even though it is third quarter, it will likely be a very high season in some of our products and we might likely purchase additional time on the spot market, but the variance of the advertising expenditure will be no more than 10%, plus or minus the \$70 million commitment.

James Hu - *Acorn International Incorporated - CEO*

(spoken in foreign language)

Chen Fu - *Acorn International Incorporated - Director IR*

2009 in terms of advertising costs actually has been the most stable in the last few years with some television station maybe roughly 10% to 15% of them raise their prices and then about 15% of them actually drop their prices. If you average that out, our advertising costs 2009 comparison to 2000 is roughly about 5% increase.

James Hu - *Acorn International Incorporated - CEO*

(spoken in foreign language)

Chen Fu - *Acorn International Incorporated - Director IR*

We cannot -- James was saying that we cannot really focus purely just on the cost, permanent cost of advertising rates. Instead, for example, on the [Jente] stations that we had purchased the air time, the prices actually increased about 15% for 2009, but in comparison the -- the programming of [Jente] is much improved in 2009 and its coverage has significantly increased as well. So the media efficiency for Acorn by working with [Jente] station actually has improved much larger than the unit price increase of its air time.

James Hu - *Acorn International Incorporated - CEO*

(spoken in foreign language)



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Chen Fu - *Acorn International Incorporated - Director IR*

Actually, we have refined our strategies working with these television stations and in this year in particular that we are able to effectively give feedback to the television stations on the -- the popularity of their programming based on our sales. And then we're able to advise them to change their programming to better suit the customers' needs and the also better improve Acorn's TV sales.

Steven Monticelli - *Mosaic Investments - Analyst*

Okay, thank you. One final question from the Yimeng business, do you expect any further dividends to be paid based on future earnings later in '09 or into 2010?

James Hu - *Acorn International Incorporated - CEO*

(spoken in foreign language)

Chen Fu - *Acorn International Incorporated - Director IR*

Steven, James' answer to your question is that there is a possible. Really the answer to that is really depending on the direction of future development for Yimeng. The reason we actually sold Yimeng was because -- because of the CSRC's decision to forbid the advertisement of these type of software on TV that we -- Yimeng has really lost the synergy of working with Acorn's platform. But we still are very positive on its future and that's why we tapped the investment at 18% as long-term investment. But the Yimeng's business can be very seasonal with the changes in the domestic stock market. So there is a little bit of uncertainty about, but we are still very positive that -- that its future potential and if things all goes -- all things goes well we're still hopeful that it might be able to -- and to go public in, say, in a domestic market and, therefore, we'll have a much higher return on our investment.

Steven Monticelli - *Mosaic Investments - Analyst*

All right. Thank you. And just finally I'd like to also support the thought of a onetime cash dividend, which would distribute your overcapitalized cash for the benefit of all shareholders without impairing your trading volume. And as you may recall, I mentioned that in our meeting back in July. Thank you.

Gordon Wang - *Acorn International Incorporated - CFO*

Thank you, Steven, we will -- yes, I will relay the message to the management and also the Board of Directors.

James Hu - *Acorn International Incorporated - CEO*

(spoken in foreign language)

Chen Fu - *Acorn International Incorporated - Director IR*

James said they will definitely consider all of your suggestions.

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Operator

(Operator Instructions)

Chen Fu - *Acorn International Incorporated - Director IR*

All right, if there aren't any more questions we will just close the call. Thank you, everyone. Let me just remind you that an archive webcast of this conference call will be available on the Company's website. For additional questions please feel free to contact any member of our IR team at IR@china.drtv.com. Thank you all again and have a good day. Good-bye.

Gordon Wang - *Acorn International Incorporated - CFO*

Good-bye, thank you.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation and you may now disconnect. Have a great day.

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