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Acorn International Reports Fourth Quarter and Full Year 2014 Financial Results

SHANGHAI, China, May 13, 2015– Acorn International, Inc. (NYSE: ATV) (“Acorn” or the “Company”), a marketing and branding company in China engaged in developing, promoting and selling products through complementary direct sales platforms and distribution networks, today announced its unaudited financial results for the fourth quarter and full year ended December 31, 2014.

Summary Results for the Fourth Quarter of 2014

- Net revenues were \$20.6 million, a decrease of 42.4% from \$35.7 million in the fourth quarter of 2013.
- Gross profit was \$7.1 million, a decrease of 59.6% from \$17.6 million in the fourth quarter of 2013.
- Gross margin was 34.6%, as compared to 49.3% in the fourth quarter of 2013.
- Operating loss was \$12.9 million, as compared to \$14.0 million in the fourth quarter of 2013.
- Net loss attributable to Acorn was \$13.8 million, relatively unchanged from the fourth quarter of 2013.
- Basic and diluted loss per American Depositary Share (“ADS”, one ADS represents three ordinary shares) was \$0.51, relatively unchanged from the fourth quarter of 2013.

Summary Results for the Full Year 2014

- Net revenues were \$94.8 million, a decrease of 48.7% compared to \$184.7 million for 2013.
- Gross profit was \$37.8 million, a decrease of 59.0% compared to \$92.2 million for 2013.
- Gross margin was 39.9%, compared to 49.9% for 2013.
- Operating loss was \$44.9 million, compared to an operating loss of \$42.5 million for 2013.

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- Net loss attributable to Acorn was \$44.3 million, compared to a net loss of \$39.9 million for 2013.
- Basic and diluted loss per ADS was \$1.62 for 2014, compared to basic and diluted loss per ADS of \$1.41 for 2013.

In 2014, Acorn's TV direct sales business was severely impacted by a regulation imposed by China's State Administration of Press, Publication, Radio, Films and Television (the "SAPPRFT") limiting the length and frequency of infomercials aired on satellite television channels in China effective January 1, 2014. As a result, the Company reduced media spending and the airtime for its television infomercials decreased significantly, leading to a 66.8% decline in net revenues from Acorn's direct sales platforms in 2014. Acorn's kitchen and household products and collectible products declined due to the reduction in television media spending, while sales of fitness products, which are in the later stages of their product life cycle, and mobile phones declined.

Sales of electronic learning products increased 7.9% in 2014, primarily due to growing market recognition of the Company's newer models which feature interactive internet functionality. Acorn recently added another of China's leading consumer electronics retailers to its new O2O ("online to offline") platform for electronic learning products. The Company expects further growth in sales of electronic learning products in 2015, supported by its nationwide distribution network, new models and the Chinese government's stance on in-classroom digital learning.

Despite management's efforts to reposition the TV direct sales business within the new regulatory environment, total net revenue declined 48.7% in 2014 to \$94.8 million. The Company executed a number of cost saving initiatives including a 50% reduction in headcount across all its business divisions and subleasing excess office space and warehouses. However, due to the sharp decline in sales, the Company incurred a net loss of \$44.3 million in 2014.

In light of the challenges facing Acorn's TV direct sales business, the Company decided to exit this business and ceased its TV direct sales operations in the first quarter of 2015 and is currently pursuing the return of \$6.2 million in related prepaid advertising airtime outstanding at the end of 2014. Going forward, the Company will focus on its other direct sales platforms, including Internet, outbound telemarketing and catalog sales, along with expanding its nationwide distribution network, to strengthen its brand promotion efforts and help offset the decline in revenue from the TV direct sales business.

Business Results for the Fourth Quarter of 2014:

- Electronic learning products, which are sold primarily via Acorn's nationwide distribution network, were the largest product category in the fourth quarter of 2014, generating revenues of \$9.8 million and representing 47.7% of total gross revenues. Sales from electronic learning products increased 20.8% year-over-year, primarily due to growing market recognition of the Company's newer models which feature interactive internet functionality.

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- Collectible products were the second largest product category in the fourth quarter of 2014, generating revenues of \$3.4 million and representing 16.6% of total gross revenues, driven by sales of watches, precious metals and calligraphy products.
- Health products, which are sold primarily via Acom's nationwide distribution network, were the third largest product category in the fourth quarter of 2014, generating revenues of \$2.4 million and representing 11.7% of total gross revenues, driven by sales of oxygen generating devices and posture correction products.
- Sales generated from Acom's direct sales platforms, which consist of Acom's TV direct sales platform, outbound telemarketing, Internet and catalogs, decreased 61.7% year-over-year in the fourth quarter of 2014. The decrease was mainly due to the new regulation imposed by the SAPPRT effective January 1, 2014 that limits the length and frequency of infomercials aired on satellite television channels.

Financial Results for the Fourth Quarter of 2014:

Total net revenues were \$20.6 million, a decrease of 42.4% from \$35.7 million in the fourth quarter of 2013. Direct sales contributed to 49.2%, or \$10.1 million, of total net revenues in the fourth quarter of 2014, representing a 61.7% decrease from \$26.4 million in the same period of last year. The decrease in direct sales net revenue was mainly due to the impact of the new regulation imposed by the SAPPRT.

Distribution sales net revenues were \$10.5 million, an increase of 12.5% from fourth quarter of 2013. Distribution sales of electronic learning products accounted for 87.6% of total distribution sales and increased 19.2% year-over-year, which was primarily due to growing market recognition of the Company's newer models which feature interactive internet functionality.

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The table below summarizes the gross revenues of the Company in the fourth quarters of 2014 and 2013, respectively, broken down by product category:

	2014 Q4	Sales	2013 Q4	Sales
	<u>\$'000</u>	<u>%</u>	<u>\$'000</u>	<u>%</u>
Electronic learning products	9,846	47.7%	8,148	22.7%
Collectible products	3,432	16.6%	7,168	20.0%
Health products	2,411	11.7%	2,727	7.6%
Mobile phones	1,672	8.1%	3,462	9.7%
Kitchen and household products	1,225	5.9%	10,460	29.2%
Fitness products	597	2.9%	1,807	5.0%
Other products	1,461	7.1%	2,101	5.8%
Total gross revenues	20,644	100.0%	35,873	100.0%
Sales taxes	(53)		(133)	
Total net revenues	20,591		35,740	

Cost of sales in the fourth quarter of 2014 was \$13.5 million, representing a 25.7% decrease from \$18.1 million in the fourth quarter of 2013, primarily due to the decrease in overall sales.

Gross profit in the fourth quarter of 2014 was \$7.1 million, representing a 59.6% decrease as compared to \$17.6 million in the fourth quarter of 2013. Gross margin was 34.6% in the fourth quarter of 2014, as compared to 49.3% in the same period of 2013. The decrease in gross margin was primarily due to the larger contribution by electronic learning products, which generally carry lower gross margin, in the product mix.

Advertising expense was \$1.5 million in the fourth quarter of 2014, down 86.0% from \$10.7 million in the fourth quarter of 2013. Gross profit over advertising expense, a benchmark Acorn uses to measure return on its multiple sales platforms, was 4.75 in the fourth quarter of 2014, up from 1.64 in the fourth quarter of 2013 and also up from 2.26 in the third quarter of 2014. The increases were mainly due to the larger contribution of electronic learning products, which are primarily sold through the Company's distribution network, as well as a significant reduction in television media spending.

Other selling and marketing expense was \$11.3 million in the fourth quarter of 2014, down 15.2% from \$13.4 million in the fourth quarter of 2013. The decrease in other selling and marketing expense was less than the decrease in total net revenues due to the marketing and promotional expenses of Ozing electronic learning products.

General and administrative expense was \$7.9 million in the fourth quarter of 2014, representing a 6.0% decrease from \$8.4 million in the fourth quarter of 2013.

Other operating income, net, was \$0.7 million in the fourth quarter of 2014, as compared to \$0.9 million in the fourth quarter of 2013.

The operating loss was \$12.9 million, as compared to \$14.0 million in the fourth quarter of 2013.

Other income was \$0.3 million, as compared to \$0.8 million in the fourth quarter of 2013.

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Share-based compensation was \$107,000 in the fourth quarter of 2014, as compared to \$107,000 in the fourth quarter of 2013.

Income tax expense was \$1.0 million in the fourth quarter of 2014 as compared to \$0.5 million in the fourth quarter of 2013.

Net loss attributable to Acorn was \$13.8 million, relatively unchanged from the fourth quarter of 2013.

Basic and diluted loss per ADS was \$0.51 compared to basic and diluted loss per ADS of \$0.51 in the fourth quarter of 2013.

As of December 31, 2014, Acorn's cash and cash equivalents, with current restricted cash, totaled \$44.4 million, as compared to \$82.9 million as of December 31, 2013. The decrease in the Company's cash and cash equivalents was primarily due to the losses from operations for 2014. The Company is in preliminary discussions with a PRC commercial bank to secure a borrowing facility of approximately RMB100 million (\$16.1 million) secured by certain of its facilities in Shanghai and is evaluating the sales of other non-core assets and securities to increase its liquidity position and fund operations.

Fiscal Year 2014 Results:

Total net revenues were \$94.8 million for the full year 2014, a decrease of 48.7% from \$184.7 million for 2013. Direct sales contributed 47.7%, or \$45.2 million, of the total net revenues for the full year 2014, a decrease of 66.8% from \$136.4 million for 2014. The decrease in direct sales net revenue was mainly due to the impact of the new regulation imposed by the SAPPRFT.

Distribution sales net revenues increased 2.5% year-over-year to \$49.5 million from \$48.3 million for 2013. Distribution sales of electronic learning products accounted for 86.3% of total distribution sales and increased 7.9% in 2014, primarily due to growing market recognition of the Company's newer models which feature interactive internet functionality.

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The table below summarizes the gross revenues of the Company for year 2014 and 2013, broken down by product categories:

	2014 \$'000	Sales %	2013 \$'000	Sales %
Electronic learning products	44,138	46.5%	40,903	22.1%
Collectible products	15,414	16.2%	29,643	16.0%
Health products	9,876	10.4%	10,098	5.5%
Kitchen and household products	9,810	10.3%	27,008	14.6%
Mobile phones	6,000	6.3%	25,924	14.0%
Fitness products	4,554	4.8%	38,427	20.8%
Other products	5,162	5.5%	13,147	7.0%
Total gross revenues	94,954	100.0%	185,150	100.0%
Sales taxes	(199)		(439)	
Total net revenues	94,755		184,711	

Cost of sales for 2014 was \$56.9 million, a 38.5% decrease from \$92.5 million for 2013. The decrease was primarily due to the decrease in overall sales.

Gross profit for 2014 was \$37.8 million, a decrease of 59% compared to \$92.2 million for 2013. Gross margin was 39.9% for 2014, compared to 49.9% for 2013. The decrease in gross margin was primarily due to the larger contribution by electronic learning products, which generally carry lower gross margin, in the product mix.

Advertising expenses were \$16.2 million for 2014, compared to \$51.7 million for 2013. Gross profit over advertising expenses, a benchmark Acorn uses to measure return on multiple sales platforms, was 2.33 in 2014, up from 1.78 for 2013. The increase was primarily due to the larger contribution of electronic learning products, which are primarily sold through the Company's distribution network, as well as a significant reduction in television media spending.

Other selling and marketing expenses decreased 26.8% to \$40.2 million from \$54.9 million for 2013. The decrease in other selling and marketing expense was less than the decrease in total net revenues due to the marketing and promotional expenses of Ozing electronic learning products.

General and administrative expenses were \$28.4 million for 2014, a 7.4% decrease from \$30.7 million for 2013, primarily due to lower labor costs.

Other operating income, net, was \$2.1 million for 2014, compared to \$2.6 million for 2013.

As a result of all of the items above, operating loss was \$44.9 million for 2014, compared to a loss of \$42.5 million for 2013.

Other income was \$2.0 million, compared to \$3.4 million for 2013.

Share-based compensation was \$428,000 in 2014, as compared to \$446,412 in 2013.

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The Company recorded income tax expense of \$1.2 million for 2014 as compared to \$0.6 million for 2013.

Net loss attributable to Acorn was \$44.3 million, compared to a net loss of \$39.9 million for 2013.

Basic and diluted loss per ADS was \$1.62 for 2014, compared to basic and diluted loss of \$1.41 for 2013.

Other Information

As previously disclosed, since mid-2014 there has been an ongoing dispute between various shareholders for the control of the Company's strategic direction and its board of directors. The alignment of the various parties to this dispute generally falls across two lines, with Mr. Robert W. Roche, the Company's co-founder and a member of its board of directors, and shareholders that are allied with him, in one camp, and the other camp comprised of the Company's other largest shareholders, Mr. Don Dongjie Yang, the Company's other co-founder and its current executive chairman and the chief executive officer, and SB Asia Investment Fund II L.P.

On March 6, 2015, the Grand Court of the Cayman Islands, issued a final order relating to this shareholder dispute and found in Mr. Robert W. Roche's favor, granting him certain of the remedies he (through Acorn Composite Corporation) sought in his petition by directing that the Company call an extraordinary general meeting of Acorn shareholders, or EGM, to be held on May 4, 2015. At the EGM, Acorn's shareholders approved the removal of certain directors and re-elected certain directors. As a result, effective as of May 4, 2015, Mr. Don Dongjie Yang, Mr. Charlie Shiqiang Ban, Mr. Steve Xiaodi Sun, and Mr. Liang Lu were no longer directors of the Company and Mr. David Leung, Mr. Cosimo Borrelli, and Mr. David Naphtali were members of the Company's board of directors, which consists of six members. Immediately following the EGM, the newly constituted board of directors appointed Mr. Robert W. Roche to replace Mr. Don Dongjie Yang as the executive chairman and chief executive officer of the Company.

Additional information relating to the shareholder dispute and the judgment of the Grand Court of the Cayman Islands can be found in the Company annual report on Form 20-F for the fiscal year ended December 31, 2014 filed with the Securities and Exchange Commission ("SEC") on May 13, 2015 and the Company's Form 6-K furnished to the SEC prior to the date of this release. Additional information relating to the May 4, 2015 EGM can be found in Notice of Meeting and Proxy Statement of the Company mailed to shareholders and ADS holders and attached as exhibits to the Company's Forms 6-K furnished to the SEC on March 30, 2015 and May 4, 2015.