



December 7, 2009

PROTECT YOUR INVESTMENT -- VOTE THE ENCLOSED BLUE REVOCATION CARD TODAY!

Dear EMAK Stockholder,

Over the last several weeks, you have likely received a series of communications via mail, email, telephone and press release from a group of disgruntled shareholders using the name Take Back EMAK ("TBE") in their quest to unseat three members of the board of directors of EMAK Worldwide, Inc. ("EMAK" or the "Company"), including one of EMAK's largest common stockholders, Stephen Robeck, through a written consent solicitation (the "Consent Solicitation"). They are seeking to replace these directors elected only five months ago at EMAK's annual meeting with directors loyal to Donald A. Kurz, with the stated goal of restoring him as CEO of EMAK. **Your Board of Directors, with the exception of Kurz, unanimously recommends that you vote the enclosed BLUE revocation card.**

We think that there are two main reasons you should vote against Kurz: 1) He has no plan for fixing EMAK's broken capital structure, and in fact, if he and his designees are elected, there is a real risk that the Company will be forced into bankruptcy since Crown Capital (which invested \$25 million in 2000, and has stock with a liquidation preference of \$25.7 million) will treat it as a change in control and seek to redeem their stock, leading to more litigation and possibly bankruptcy; and 2) Kurz is not the right person to lead EMAK, which is why he was ousted as CEO nearly five years ago after years of a failed acquisition strategy capped off by huge losses in 2004 and 2005. He doesn't understand EMAK's business and would undo all the hard work of the past four years to position EMAK for the future.

**For the reasons we explain below and in the pages that follow, we strongly recommend that you disregard the solicitation materials from TBE, and if you have provided your consent, we recommend you revoke it immediately by sending in the BLUE REVOCATION CARD included in these materials.**

In order to move forward as a Company, EMAK must address its broken capital structure, which has a large preferred stock liquidation preference standing in the way of accessing new capital for growth of the business and depressing the value of your common stock. Your Board of Directors is focused intently on taking the proper course to build the highest possible shareholder value, and we are committed to doing so as swiftly as possible. We believe we have the right team in place to negotiate the capital structure in partnership with EMAK's preferred stockholder, Crown Capital, who has given up significant rights in the past and is committed to working with the incumbent Board on a structure that will benefit all stockholders. The Board approved an exchange transaction with Crown in October that was the first step in this restructuring process. The exchange transaction took away Crown's two board seats in exchange for letting Crown vote with the common stock on election of directors. Kurz and TBE have forced the Company to spend hundreds of thousands of dollars defending this business decision through their litigation. The Board eventually decided to try and stop the litigation expense by rescinding the transaction, but TBE and Kurz have no intention of stopping their campaign of lies, so the only way to silence them will be through your vote AGAINST TBE. **The bottom line is that electing a new Board will destroy any possibility of a negotiated resolution with Crown and will instead immediately foment further litigation and strife.**

Stockholders should also recognize that a vote for TBE is a vote to return to the failed leadership of Kurz, which was defined by a doomed cash-based acquisition strategy resulting in rising debt and cash burn. After Kurz was through, EMAK was on the brink of disaster, with money-losing businesses that didn't have a coherent strategic vision. The current management team has exited a number of bad businesses, strengthened the balance sheet through the payment of debt and the building of cash, and transformed EMAK's business focus from the declining promotional products industry to marketing services, which has a more attractive long-term margin profile and where EMAK will derive real value and growth over the next several years.

The last few years have been tough, but we firmly believe that EMAK is back on a growth track in an attractive business now. EMAK's management negotiated with Crown in 2006 to do away with its \$1.5 million per year cash dividend, saving nearly \$5 million in cash interest expense. They successfully negotiated a cost-savings of over \$1 million per year by taking the unpopular step of de-registering the common stock – but for a company of this size that \$1 million was better spent elsewhere, and the Company has continued to provide quarterly and annual financial data. They have twice successfully negotiated to maintain and extend EMAK's bank line (including once during the worst credit crunch in memory). EMAK's current leadership has made the hard choices and best understands these new opportunities – Kurz is trying to take this company back to the past, but the world doesn't work that way. The marketing services and promotional products business worlds have moved on since Kurz's failed reign, and there is nothing to suggest that he understands those changes or would be able to navigate the fast-moving environment in which we currently live.

TBE's platform is based upon Kurz's self-interest and a litany of falsities. We encourage you to undertake a rational and honest assessment of Kurz's leadership and we have attempted to present a fair assessment in these materials.

### **Who is Donald A. Kurz?**

Kurz is an ousted-CEO seemingly obsessed with gaining control of the Company that turned him out almost five years ago. His first attempt to regain control of EMAK, through a failed but costly proxy fight (costing EMAK more than \$300,000), was launched not six months after his forced resignation in 2005. Through the years, his communications with the Board show an ongoing pattern of hostility and vindictiveness that far exceeds the boundaries of a shareholder activist and are particularly concerning because he is a current member of the Board. He has made numerous, unprofessional threats to the directors, including a promise to “target” their personal assets.

### **Recent History with Kurz**

On April 13, 2009, Kurz wrote a letter to the EMAK Board demanding the termination of Chairman Stephen Robeck and Chief Executive Officer Jim Holbrook (the “Demand Letter”). The Board's views on the allegations contained in the Demand Letter are set forth in the attached materials. Despite the aggressive and hostile tone of the Demand Letter and Kurz's long pattern of hostility toward EMAK, the Board chose to meet with Kurz and provide him with a full and open forum to present his views.

After Kurz's April agitations with the Board, and an opportunity for Kurz to present his vision for EMAK to them, the Board once again in good faith invited Kurz to rejoin the Board, which he did in June 2009. The Board did this in a good faith effort to end Kurz's hostility and to try to move beyond the distractions as EMAK continued running its business in a very difficult economic climate.

Instead, Kurz continues to be a destructive distraction to the Company. As a director Kurz has a duty to communicate fully and openly about his activities, and he has failed utterly in that duty of candor. Three months after re-joining EMAK's Board, Kurz made a proposal directly to Crown without the knowledge of the Board. Kurz proposed a restructuring to convert Crown's Preferred Stock at full \$25.7 million value into cash and secured debt payable over three years, with Kurz presumably to take over as CEO with Crown's support. Kurz did not inform the Board about this offer until after it was made, and then only after being confronted with the fact that Crown had told a member of the Board about the proposed transaction. Moreover, Kurz's offer undermined ongoing negotiations between the Board and Crown. At best, if consummated Kurz's proposed restructuring would have fundamentally damaged EMAK's capital structure. At worst, it could have run the Company into bankruptcy. Tellingly, even though this proposal would have benefited Crown, Crown chose not to take the deal, presumably because it had no confidence in Kurz's ability to take over as CEO of EMAK.

On October 12, 2009, TBE delivered to EMAK a written consent to approve and adopt resolutions removing Jim Holbrook (CEO), Stephen Robeck (Chairman, Founder and a holder of more than 10% of the Common Stock), and Jordan Rednor (an outside director with years of experience with marketing services) from the Board and, in their places, electing Phillip S. Kleweno, Michael A. Konig, and Lloyd Sems to the Board<sup>1</sup>, none of whom has any significant experience in the marketing services business. Disturbingly, it appears that Kurz was involved in the creation of the Consent Solicitation and was funneling confidential Board information to TBE to help in the planning of its solicitation. Contrary to express representations made to EMAK's Board (Kurz adamantly denied any involvement with TBE at EMAK's September board meeting), Kurz was in discussions with TBE prior to its delivery of the initial consent on October 12. In fact, Kurz is funding a significant portion of TBE's Consent Solicitation.

Additionally, what TBE has failed to state is that electing Kurz and his nominees to the Board and replacing Holbrook as CEO would almost certainly constitute a change of control, allowing Crown to demand immediate payment of its liquidation preference of \$25.7 million and requiring EMAK to pay substantial severance to Jim Holbrook in accordance with his employment contract. At a minimum, Crown's assertion of its redemption claim would subject the Company to significant expense and distraction, and if successful, would essentially bankrupt the Company.

**Whatever questions EMAK faces as a Company, you can be sure that Kurz is not the answer. A vote for TBE is a vote for the swift demise of EMAK. The Board asks that you tell TBE and Kurz "NO"—that you do not support their efforts to oust the EMAK Board and return to Kurz's leadership. If you already voted in favor of the TBE consent before hearing the complete story, please send in the BLUE REVOCATION CARD. If you have not yet voted, you don't have to do anything. Your withheld vote counts as a "NO." If you want to help send a stronger message, feel free to send in the BLUE REVOCATION CARD marked "Against" all of their proposals.**

Kurz has made so many false and misleading statements against current management and the Board that it is hard to know where to begin to provide you, as stockholders, with the truth. Because of this, we've put together a comprehensive response in the enclosed materials. These are also posted at our website, [www.emak.com](http://www.emak.com), on the home page under "Featured Investor News and Materials" and also under "Recent News and Events" on the Investor Info page. We know that it is a lot to wade through. If

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<sup>1</sup> In conjunction with its Consent Solicitation, TBE launched a website, [www.TakeBackEMAK.com](http://www.TakeBackEMAK.com) (all of the TBE documents referenced in this letter can be found on their website, and you are welcome to review their positions as you think about this important decision).

you already know that you oppose Kurz's efforts to take over EMAK, please send your revocation card today. If you need more information, read on!

**If you have any questions or need assistance in voting the enclosed BLUE revocation card, please call MacKenzie Partners, Inc. at (800) 322-2885.**

Sincerely,

Jim Holbrook, Chief Executive Officer, Director

Stephen Robeck, Chairman of the Board

Jordan Rednor, Director

Howard Bland, Director

Jeff Deutschman, Director

## **WHO IS DON KURZ AND WHY SHOULDN'T HIS CAMPAIGN TO TAKE OVER EMAK SUCCEED?**

Over these many months Kurz and TBE have made many false and misleading statements, most egregiously in Kurz's April 2009 Demand Letter. We've saved this for last as it requires the longest response. Please see below for detailed, factual information that should help you wade through the river of lies coming from the insurgents.

### **The October 19, 2009 TBE Letter—The Important Facts They Failed to Tell You**

On October 19, 2009, TBE published a letter in support of the Consent Solicitation (the "October 19 Letter") containing numerous false and misleading statements.

For example, the October 19 Letter states that Kurz and TBE are "fully committed to an immediate and long-term return to profitability and performance." What they failed to state is that causing Kurz and his nominees to constitute a majority of the Board, and replacing Holbrook as CEO (both points integral to the Kurz/TBE platform) would subject the Company to the possibility of catastrophic payments, and in all events, would expose the Company to immediate legal claims which it would inevitably have to defend in litigation or settle at significant cost.

Specifically, TBE should have disclosed the likelihood that Crown would take the position that the election of the Kurz/TBE nominees will be a change of control, allowing Crown to demand immediate payment of its liquidation preference of \$25 million (plus accrued dividends and premiums equal to an additional \$700,000, for a total payment of \$25.7 million). At a minimum, Crown's assertion of this claim would subject the Company to significant expense and distraction, and if successful, would essentially bankrupt the Company.

Similarly, TBE failed to disclose that Jim Holbrook, the current CEO, has a standard change of control provision in his employment agreement that would entitle him to immediate payment of two years' salary and benefits, an approximately \$1 million payout, if he's terminated as TBE has stated they plan to do.

The October 19 Letter also states that the Board "refus[ed] to consider multiple buyout overtures, including for up to \$15 per share." This statement is blatantly false. In fact, the "\$15 overture" referred to was nothing more than a request by a potential buyer in 2005 to conduct due diligence, with no indication of price at all, and was in response to Kurz's solicitation of go private offers against the express direction of the Board – which wanted Kurz to focus on regaining the support of his management team and on fixing the disastrous 2004 results he had.

Similarly, the statement that the current Board is "complicit" in having "repeatedly rejected suitors willing to pay significant premiums to market" is simply false. In fact, despite months of talking to potential buyers in 2008 and 2009, the Company has not received any bona fide, financed, offers to buy the Company.

In addition, the October 19 Letter misleadingly states that "[i]t is important to note that we are seeking recovery directly from the directors, and not from your company. Indeed, we are seeking a recovery for the company." The fact is that the Company has incurred enormous expenses in defending itself in two different litigations brought by Kurz, Sems, TBE, and others. Moreover, the actual goal of these lawsuits, as well as the Consent Solicitation, is to restore Kurz as CEO. In addition, the October 19 Letter misstates the financial impact of the lawsuits, because the directors have been and are indemnified by the Company and there is likely to be limited D&O insurance available, since Kurz is a director of the

Company. While the Board is fighting hard to have D&O insurance cover some of these costs, if they're not successful, every dollar of the defense comes from the Company's limited resources.

The October 19 Letter also states that Kurz's "prior six-year tenure saw continual success, including . . . stock price over \$10.00 per share." This statement is highly misleading because the Company's thinly-traded stock was artificially inflated by a stock buyback program initiated by Kurz, one effect of which was to significantly increase Kurz's percentage ownership of the Company, and another of which was to drastically reduce the liquidity and trading volume of EMAK's stock.

Kurz's claim of "continual success" during his tenure is also blatantly false and misleading, as in 2004, the last full year of Kurz's tenure, the Company suffered a net loss of \$9.7 million – the Company's first loss since going public in 1994. Moreover, the Company's failed acquisition strategy engineered by Kurz resulted in further losses in 2005 (the year the Board forced Kurz to resign as CEO) and beyond. Under Kurz's management, EMAK burned through over \$15 million of cash in 2004, and by the end of the year had only \$4.4 million of cash and over \$6 million in debt.

### **The November 16 Letter—The Pattern of Misleading Disclosure Continues**

On November 16, 2009, TBE sent a second letter in support of the Consent Solicitation ("November 16 Letter"). Like the October 19 Letter, the November 16 Letter contains numerous false and misleading statements.

For example, in response to the Company's preferred exchange transaction, the November 16 Letter states that the "current directors are doing everything they can to entrench themselves in office, and hinder EMAK's shareholders—the owners of the company—from freely electing their board representatives," that the "current board shamelessly approved a self-serving exchange transaction that seeks to rob current stockholders of their right to replace directors and thereby change the direction of the company," and that the Board has "tried to disenfranchise all of us." This Board was elected just five months ago, and TBE had an opportunity to nominate directors then. In addition, the current directors have no real vested interest in the Company except for their ownership of the Company's common stock. The Chairman TBE is seeking to remove holds more than 10% of EMAK's common stock, came out of retirement to help guide EMAK late in Kurz's troubled tenure, and has stated repeatedly that he is only on the Board in order to try and increase the value of the common stock. The Board did not undertake the exchange transaction to entrench themselves, as evidenced by the Board's willingness to rescind the transaction. The Board's goal has always been to maximize EMAK's value, and it acted in good faith to try and keep negotiations with Crown Capital moving forward while minimizing disruptions to the Company's business, an attempt that has failed due to TBE's insistence on pursuing its litigation strategy.

The November 16 Letter also states that the "board is forcing its owners to use the court system to ensure their rights are maintained. This, regrettably, drains both the company and shareholders resources and time, but is absolutely necessary." Although the Board does not believe that Kurz and Sems' legal challenges to the exchange transaction are valid, the Board has acted to rescind the exchange transaction, the *exact relief* sought by Kurz and Sems in their Complaint. Yet, Kurz and Sems did not dismiss their lawsuit. Instead, they filed an amended complaint and are continuing to pursue litigation against the Company. Why would any director who actually cares about a company do such a thing? In this case, it seems as though Kurz's goal is not only grab back his CEO job but to try and punish those who forced him to resign five years ago.

The November 16 Letter also falsely states that the board “hastily” approved the exchange transaction in response to the Consent Solicitation. A recapitalization of the Preferred Stock had been under consideration by the Board for many months prior to the Consent Solicitation. Indeed, Kurz himself had proposed restructurings to Crown in the months before the Consent Solicitation was initiated. In fact, if this Consent Solicitation fails, the Board intends to make a proposal to completely restructure the preferred, and to present that proposal to stockholders for approval. The Board has been totally consistent in stating that its goal is to increase the value of the common stock by restructuring the preferred stock.

### **The April 2009 Demand Letter—A Rewrite of EMAK History**

TBE has published on its website an April 13, 2009 letter from Mr. Kurz to the EMAK Board (the “Demand Letter”). The Demand Letter makes various accusations about the financial performance and diminished value of EMAK since Kurz’s departure as CEO in May 2005. These allegations are best evaluated in the context of the state of the business in the months leading up to Kurz’s forced resignation.

In 2004, EMAK recorded its first net loss (\$9.4 million), since going public in 1994. After a series of small acquisitions (five over three years), the Company had a high cost structure, multiple offices and operating locations and significant integration issues with its five product-based agencies. Despite the diversification goals of the acquisition program, EMAK continued to suffer from heavy client concentration impacting three of its agencies—Burger King represented 51% of EMAK’s total revenues and Kellogg represented the substantial majority of Logistix’s European revenues in 2004. Logistix’s European operation was facing a serious threat to its business due to new regulations limiting marketing to children in Europe. Additionally, in early May 2005, Subway, the sole client of the Company’s JGI agency provided a final warning memo indicating an intention to end its relationship (which it then did in July 2005). The process of winding down the Company’s consumer products business, Pop Rocket, was ongoing and write-offs related to minimum royalty guarantee shortfalls aggregated at \$7.7 million.

EMAK’s financial losses began in 2004 under Kurz’s tenure and were a primary reason for the Board requesting his resignation in May 2005. Losses peaked in 2005 due to the extraordinary write-downs related to Kurz’s failed acquisition strategy. Results have improved since Kurz’s departure, as current management has integrated agencies and rationalized operating expenses to return the Company to positive cash flow. In fact, the 2008 fiscal year was profitable before one-time charges, representing EMAK’s first profitable year since Kurz’s failed strategy drove EMAK to a loss in 2004.

Jumping to 2009, Kurz alleges in the Demand Letter that the April 2009 loss of the MillerCoors business by the Company’s Upshot agency is a “devastating blow” as the Company has been “spiraling down hill for the past four years.” The loss of the MillerCoors business, while certainly disappointing, was not “devastating” to Upshot. The Upshot of 2009 is considerably stronger than the Upshot of 2004, which lost the Diageo business when it had only two other pillar clients with billings in excess of \$1 million. Today’s Upshot has six other pillar clients, and its 2008 net revenues were more than twice their 2004 level.

Kurz further alleges that, “We are now left with a deregistered, \$.21 bid, illiquid Pink Sheet traded stock, and a broken capital structure that has virtually no chance to recover.” However, what the Demand Letter does not indicate is that Kurz was the primary architect of what he refers to as a “broken” capital structure. He brought in Crown as an investor in 2000 and then proceeded to use all of the \$24 million net proceeds from their preferred stock investment, as well as \$42 million in cash flow from operations,

on failed acquisitions and a stock buyback program that reduced the public float substantially and left EMAK with an illiquid stock.

The Demand Letter also provides a bullet point summary of the events purportedly demonstrating the incompetence of Robeck and Holbrook.

- **“The loss of the MillerCoors business that was just announced. This is the second time in the past five years Jim has lost that business (first as head of Zippatoni [sic], who we won the Miller business from in early 2005). As far as I can tell, this came as a complete shock to the Company. If that is the case, it is indicative of not being close to your largest Upshot client (just like the case with Burger King). Clients don’t just pull large pieces of business without meaningful signals.”**
  - Holbrook was not directly heading Zipatoni at the time Upshot won the business from that agency in 2005. He was leading a group of agencies for IPG.
  - Miller had just hired Upshot when Kurz left EMAK. Don was neither actively involved in the pitch nor in the securing of the Miller business, as Upshot operated as a quasi stand-alone entity.
  - Since Holbrook’s arrival, Miller significantly increased the business they were giving to Upshot.
  - When Miller consolidated with Coors, there was an agency consolidation and Coors' historic agency was selected for a new contract. This was simply the normal result in case of a major merger, not the result of a failure by EMAK to be close to its client.
  - Since Kurz's departure, Upshot has added several major accounts. Prior to Kurz's departure (from the date of acquisition in 2002 through 2004), Upshot lost several clients including: Diageo, Hallmark, Discover and other smaller clients.
  - Since the loss of MillerCoors, Upshot has been successful winning new clients in the beer and spirits category.
- **“Constant restructurings such that it seems that every quarter there are more special charges and more terminations with no strategic direction. The bottom line is the Company has lost money every year Jim has been in charge, along with a dramatic shrinking of the revenue base. There is not skill in cost reduction. The skill is in a coherent, clearly communicated plan that, as a component, rationalizes the cost structure to achieve the Company’s goals.”**
  - Constant restructurings were a part of EMAK under Kurz. The Company implemented one restructuring in Q1 2005, two restructurings in 2004, one restructuring in 2003, one restructuring in 2002 and one restructuring in 1998.
  - Since Kurz's departure in May 2005, numerous restructurings have been necessary in order to properly integrate the products agencies and align overhead with the volume of business.
- **“The Company has an overhead structure that is literally choking its vitality. I am surprised that the business units don’t mutiny in a form of ‘taxation without representation.’”**
  - EMAK’s overhead structure is at the lowest level since the early 1990s. In inflation adjusted dollars, 2009 operating expenses are lower than 1996 operating expenses.

Further, EMAK's 2009 operating expenses are approximately 50% lower than the inflation adjusted 1999 operating expenses.

- In 1996 and 1999, EMAK had no agency services business (products-business only), had no European subsidiaries and had a relatively small non-Burger King products business (generally similar to today's business structure). The comparative decrease in operating expenses from 1996 and 1999 levels is even more startling due to the fact that they represent a time period when the Company had a much simpler operating structure. In 1996 and 1999, Burger King was 70% and 80%, respectively, of the Company's total revenue. EMAK now has a much more complex business, with robust systems and internal controls.
- Under Holbrook's leadership, EMAK has reduced operating expenses by \$28 million since Kurz's departure in 2005. It is interesting that Kurz claims "there is no skill in cost reduction," given that costs only increased during his tenure, leaving the Company with an expensive cost structure and operating model.
- From 2005 to present, EMAK Corporate has gone from 51 full time equivalent employees (FTE's) to 27 and Hong Kong from 60 to 35.
- **"The purported integration of the Products acquisitions has been incoherent and reactive. What has become of Logistix, which generated excellent returns for three years, is simply tragic. With the possible exception of SCI, each acquisition made this decade should have yielded targeted returns on capital, on top of the diversification benefits."**
  - With the exception of Upshot, the acquisitions, which Kurz pushed, failed to achieve the financial returns anticipated. The acquisitions were financed almost entirely with cash, were not strategically integrated, and added a significant amount of fixed costs to the operating structure:
    - Logistix Limited (UK)—Despite promising results in 2002 and 2003 (the first full years after acquisition), by 2004 management became aware that the dependence of the agency on a single customer (Kellogg's) and single market segment (promotional toys), combined with expected changes in industry and regulatory standards, would provide significant challenges to maintaining turnover and profit levels. This proved true, as 2004 profits dropped to approximately half of their 2003 level, and beginning in 2005 Logistix showed significant losses each year eventually resulting in an insolvency proceeding in early 2009.
    - SCI— This agency underperformed in 2004 and Kurz was aware in early 2005 that SCI was having a terrible year. Consolidation in the retail department store business along with falling margins and a high overhead structure resulted in the failure of this acquisition. This failure was evident while Kurz was still the CEO.
    - JGI— Subway notified EMAK that they were going to terminate JGI in 2005 (prior to Don's departure). Kurz's failure to manage a key executive was the core cause.
    - Mega—This Company was in the same business as Logistix Limited. Kurz pushed this acquisition to try to offset the declining revenues at Logistix Limited.

However the declines were systemic to the kids marketing business in the UK. The Mega business lost money for EMAK from day one. It resulted in even larger losses in the UK and Europe. It also made it much more costly for EMAK to exit the region. Europe accounted for all of EMAK's losses from 2006 through 2008, at which point it was finally shut down.

- Under Kurz, none of the acquisitions were strategically integrated. This integration began to take place in 2006, after Kurz's departure.
- **“Even before the MillerCoors loss, Jim gave the uninspiring guidance of ‘positive EBITDA before charges in 2009, approximately flat when compared to 2008 and we should have positive net cash flow for the year’. Sound like we were in for another net loss. Now with the loss of a major client, I shudder to think what the results will be.”**
  - Guidance isn't meant to be “inspiring”—it's meant to be a realistic assessment of anticipated future results.
  - Under Kurz's leadership, the Company missed guidance so frequently that in the fourth quarter of 2004 the Board directed that the Company stop providing guidance.
    - In 2001, EMAK lowered guidance twice;
    - In 2002, EMAK lowered guidance twice and narrowed guidance (to the lower end of its range) twice;
    - In 2003, EMAK lowered guidance once and narrowed guidance (to the lower end of its range) once; and
    - In 2004, EMAK lowered guidance twice.
- **EMAK's “colossal miscalculation” of refusing to meet with Zelnick “has cost me about \$16 million based upon the trading price of EMAK upon my resignation and over \$22 million relative to my proposed buyout price.”**
  - Kurz received 1,850,000 shares of EMAK Common Stock in 1991 in exchange for a \$107,000 loan (slightly less than \$0.06 per share), which was forgiven over a 10-year period. Based on today's market price of approximately \$1.00, Kurz is still showing a profit relative to what he actually paid for the stock.
  - Kurz had numerous opportunities to exit the stock at a significantly higher value. At one point the stock was trading in excess of \$30.00 per share. Kurz also could have exited the stock at the time he resigned from the Board and no longer had any involvement in the operations of the Company; the stock was then trading in excess of \$9.00 per share.
  - In fact, various members of the Board at the time of Kurz's departure offered to work with him to help him sell a block of his stock.

In the Demand Letter, Kurz asserts that “by any objective standard,” he “had a very successful tenure” as EMAK's CEO and summarizes his apparent view of the state of the Company upon his departure in 2005, each material aspect of which is addressed in turn below.

- **“Averaged \$13 million in EBITDA during my tenure as CEO”**
  - The average EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) earned during Kurz's tenure as CEO is distorted by two unusually large Burger King years (1999 and 2000), which were dominated by extremely large Pokémon programs. All

other years during Kurz's tenure as the sole CEO, 2001 to 2004, were significantly lower, averaging \$6.6 million in EBITDA. During that period Burger King worldwide unit volumes (which are outside the control of the Company) were significantly higher than they are today, since Burger King has begun to move away from the promotional products business.

- 2004 EBITDA was a loss of \$7.1 million and marked the beginning of EMAK's loss cycle, which was not reversed until 2008.
- Kurz was responsible for the path the Company was on in 2005 and beyond. In 2004 and 2005, the Company suffered significant losses as a result of Kurz's leadership (expensive operating structure, failed acquisitions, lack of strategic integration, lack of acceptance of market conditions in retail promotions and in marketing to children in the UK).
- **“Generated \$61 million in cash from operations during this six-year period”**
  - While EMAK generated significant cash from one client (much of this cash came in those two Pokémon years), Kurz proceeded to spend all of this cash on failed acquisitions and a misguided stock buyback program.
  - The stock buy-back reduced the Company's cash and equity (tangible net worth) by approximately \$15 million and removed approximately 1,246,000 shares from the public float. The stock buy-back program only benefited Kurz and his relative ownership percentage while artificially supporting the stock price, [and was continued after Kurz was instructed by the Board to cease.].
  - At the end of 2004, EMAK only had \$4.4 million in cash and was carrying \$6 million in debt.
- **“Had record first quarter 2005 revenue (my last quarter as CEO), having won major accounts from Miler, Kraft and others”**
  - Record revenues in the first quarter of 2005 were the result of revenues added from the acquisitions and the soon to be exited retail products business (PopRocket), which was in the wind-down process.
  - While the acquisitions did inflate revenues in Q1 by approximately \$12 million, resulting in the “record first quarter,” they actually added more in operating expenses than in revenues and margins for the year, resulting in an operating loss of approximately \$264,000.
  - In addition to unprofitable revenue from acquisitions, the Q1 2005 revenue included Pop Rocket, an unprofitable business EMAK was in the process of exiting.
  - Miller revenues (approximately \$18,000) had no positive impact on first quarter 2005 comparative results. In fact, the significant additions to revenue from Miller came after Holbrook took over. Miller net revenues grew from \$4.0 million in 2005 to \$8.7 million in 2008.
  - The Kraft business won by SCI was relatively small (\$500,000 to \$3 million in revenues per year after 2005).

- **“Had turned Upshot, which was purchased out of bankruptcy two years earlier and was key to the Company’s diversification strategy”**
  - Upshot’s results in the three years between the July 2002 acquisition and Kurz’s May 2005 departure were lackluster and reflected a diminishing client base.
  - Upshot’s revenue and client base grew significantly only after Kurz’s departure, with net revenues increasing from \$11 million in 2005 to \$22 million in 2008.
- **“Was consistently paying the preferred stock dividend with no foreseeable risk of default”**
  - As of December 31, 2004, EMAK only had \$4.4 million in cash and was carrying \$6 million in debt, coming off of an EBITDA loss of \$7.1 million for the year and a reported net loss of \$9.7 million. Net cash used in operating, investing and financing activities in 2004 was approximately \$15 million.
  - In early 2006, current management negotiated a restructuring of the preferred stock that eliminated the dividend, which was a significant drain on cash flow and anticipated to result in difficulty in renewing the Company’s credit facility in 2006. This resulted in a cost savings of \$1.5 million per year.
- **“Had an enterprise value of about \$100 million”**
  - From a market capitalization perspective, this valuation cannot be supported. During the period from January 1, 2005 through May 19, 2005 (the public announcement of Kurz’s departure as CEO), EMAK Common Stock traded at an average of \$9.93 per share. There were approximately 5.8 million shares of Common Stock outstanding, so the market capitalization for EMAK (including \$25 million of Preferred Stock and vested RSUs) was approximately \$83 million. However, the market capitalization method of calculating enterprise value for EMAK is flawed, due to the illiquid market created by the buyback program.
  - EMAK’s trading price in the four years immediately preceding Kurz’s departure, which ranged from approximately \$10 to \$16 per share, is probably not a good indication of true market value due to the impact of the stock buyback program. During the period that buybacks took place, from August 2001 through June 2004, the trading price was supported to a significant extent by the Company’s own purchase transactions.
- **“Had attracted considerable interest from numerous private equity firms, including the \$15/share indication around the time of my departure”**
  - Nothing ever materialized from Kurz’s efforts with numerous private equity firms, despite the extraordinary amount of time and effort he spent in pursuit of a go-private buyout, particularly in late 2004 and early 2005 when the Company was facing serious operating challenges and the Board had specifically instructed him not to spend time on go-private activity.
  - EMAK received no formal offers or bids. The April 2005 letter referenced in the Demand Letter as a “\$15/share indication” of interest actually contained no indication of value (at \$15/share or any other number) and was simply a request for permission to conduct due diligence in order to formulate a proposal. This proposal came from a party that had been actively pursued by Kurz at a time when the Board was demanding Kurz focus on running the business and before EMAK’s disastrous 2004 and 2005 results were fully known.

- **“Enjoyed an outstanding relationship with Burger King, having recently won all of the kids and family promotional agency of record work, 100% of the premiums creative work and a significant majority of global premiums manufacturing work”**
  - EMAK conducted a client survey in 2006 and none of the Burger King respondents made mention of Kurz or his departure.
- **“Had a reputation for the highest ethical standards, and for attracting and retaining the industry’s best and brightest”**
  - Turnover rates do not support this statement. Kurz lost or fired a number of key personnel. Upshot made the Crain’s list twice after Kurz left...never before!

Finally, the Demand Letter contains numerous false and misleading allegations attacking the Company’s compensation programs and human resources track record.

- **The “2008 grant of 925,000 shares of restricted stock (as opposed to the Company’s consistent past practice of granting RSU’s)” was “improper”, “highly dilutive” and a “clear attempt to dilute outside shareholder voting.”**
  - The Board, in accordance with applicable law, unanimously approved the March 2008 grant of 925,000 shares of restricted stock to seven key executives in accordance with the terms of the underlying EMAK stock plans. The grants were the subject of significant discussion/deliberation for several months and were ultimately approved only in the context of being in lieu of raises and bonuses in 2008.
  - EMAK did not have a “consistent past practice” of granting only RSUs. From 1994 through 2002, EMAK utilized both stock options and restricted stock as components of its equity-based compensation program. In 2003, based upon the recommendation of compensation consultants engaged to design a new equity compensation structure in response to accounting rule changes, EMAK commenced the practice of using RSUs, rather than restricted stock, for most grants. The primary reason for the switch from restricted stock to RSUs was to provide more favorable tax treatment to the recipients of the awards. Since 2003, EMAK has continued to use stock options for some senior executive grants.
  - The claim that the grant was “highly dilutive” is also without merit.
    - At December 31, 2004, EMAK’s “overhang” {defined as shares underlying outstanding awards under stock-based compensation plans plus shares reserved for future issuance under plans, divided by total shares outstanding (inclusive of Crown conversion to common)} was 45.2%, with 3.1 million shares then awarded and reserved for issuance. This is an extraordinarily high number—typical target overhang is approximately 20%.
    - By comparison, at December 31, 2008, EMAK’s overhang was only 21.8%, with 2.3 million shares awarded and reserved for issuance.
    - On an equity ownership basis, the 925,000 shares granted (net of the 375,000 option shares surrendered as a condition to the grants) represented only approximately 5% dilution in EMAK equity ownership (inclusive of Common Stock, Preferred Stock and outstanding RSUs).
  - With respect to the allegation that the grant was a clear attempt to dilute outside voting, while there was some dilution in voting percentages, the grant of restricted

stock, rather than stock options or RSUs, was intended to provide a better alignment with the interests of shareholders because the shares were voting. The “psychological” value of voting shares, rather than RSUs, was deemed significant despite the equivalent economic value.

- Rights with respect to vesting and unrestricted delivery of the shares to the recipients remained identical to historical RSU grants.
  - On a Common voting shares basis, the 925,000 newly issued restricted shares represented dilution of approximately 13%.
  - On a total voting shares basis, the 925,000 restricted shares represented dilution of approximately 10.4%.
  - Kurz's personal voting percentages decreased to 20.3% of Common voting shares from 23.4%, and from 16.0% of total voting shares to 14.5%.
  - Kurz fails to mention the “boost” to his relative ownership percentage that resulted from the \$15 million stock buyback instituted under his leadership, which reduced the public float by approximately 1,246,000 shares.
- **“Finally, it is beyond astounding to me that Jim continues to live in St. Louis, with a very rich compensation package and, presumably, a robust travel budget.”**
    - EMAK’s offices are in Chicago, Los Angeles and Hong Kong. The “headquarters” office in LA is not the biggest and houses no major clients. Holbrook travels to the various offices and meets with clients on a regular basis.
    - Holbrook’s travel expenses per annum average 40% less than Kurz's 2004 travel spend.
    - During Kurz's tenure, his travel “requirements” included first class air travel and hotel suites.
- **“The Company is fundamentally a people business, and you don’t inspire people when you are often detached from the employees. There is no morale or *esprit de corps* [sic] within EMAK and there hasn’t been in the past four years.”**
    - Poor morale is explicitly measured by vehicles such as 360’s and employee surveys, and the results of all current senior executives have been “very good” or higher. Implicit measures of morale include items such as turnover, high absenteeism, workers comp claims, lawsuits, etc. In order:
      - Overall turnover in 2005 was 31.8% vs. 18.7% in 2008.
      - Upshot turnover was at 33.6% in 2005 and finished 2008 at 17.8%.
      - We have no absenteeism issues, have had one major workers compensation claim in the last five years (an employee broke her hip) and we have not had any employment related lawsuits in the U.S. in the last four years despite more than a 100 involuntary terminations. In Europe, we have two pending employment claims (which is surprising given the highly litigious environment).
    - Upshot was selected by Crain’s as one of the best places to work in Chicago for two years in a row (2007 and 2008).
    - No employee surveys were taken under Kurz's tenure.

**We hope that this information has helped you better understand what is facing EMAK. Whatever questions EMAK faces as a Company, you can be sure that Kurz is not the answer. A vote for TBE is a**

**vote for the swift demise of EMAK. The Board asks that you tell TBE and Kurz “NO”—that you do not support their efforts to oust the EMAK Board and return to Kurz’s leadership. If you already voted in favor of the TBE consent before hearing the complete story, please send in the BLUE REVOCATION CARD. If you have not yet voted, you don’t have to do anything. Your withheld vote counts as a “NO.” If you want to help send a stronger message, feel free to send in the BLUE REVOCATION CARD marked "Against" all of their proposals. Thank you for your time and consideration.**

If you have any questions or need assistance in voting the enclosed BLUE revocation card, please call MacKenzie Partners, Inc. at (800) 322-2885.