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EMAK Worldwide Reports 2009 Third Quarter and Nine Month Results

Company Reports Growth in Revenues and Net Income

LOS ANGELES, Oct. 29, 2009 – EMAK Worldwide, Inc. (OTC: EMAK), a leading marketing services firm, today announced its financial results for the third quarter and nine months ended September 30, 2009.

Recent Highlights

- Revenues grew 11 percent versus the year-ago quarter
- Third quarter net income from continuing operations was $893,000 compared with $503,000 in the year-ago quarter
- Operating expenses were reduced 11 percent versus the year-ago quarter
- EBITDA before charges and non-cash expenses was $1.8 million in the third quarter of 2009, compared to $1.3 million in the year-ago quarter
- The Company reported $13.7 million in cash and cash equivalents; no debt

"After generating more than $8.3 million of cash from operations in the first nine months of 2009, we ended the quarter with the highest cash balance of the last five years and no debt. The EMAK team has focused on operational improvements such as managing expenses and shedding underperforming operations, which are contributing directly to the bottom line," said Jim Holbrook, EMAK's Chief Executive Officer.

The following table presents a reconciliation of net income from continuing operations to EBITDA for the quarter, nine months and trailing twelve months ended September 30, 2009.

Management views EBITDA before charges and non-cash expenses as the best indicator of the Company's financial performance.

EBITDA, before charges and non-cash expenses, is calculated as follows:
(In thousands of dollars)

	Three Months Ended September 30, (Unaudited)		**Nine Months Ended September 30, (Unaudited)**		**Trailing Twelve Months Ended September 30, (Unaudited)**	
	2008	2009	2008	2009	2008	2009
Net income (loss) from continuing operations	$ 503	$ 893	$ (337)	$ 3,013	$ 1,418	$ 4,310
Interest expense, net	19	9	77	37	67	55
Provision for income taxes	48	67	201	142	302	214
Depreciation	441	516	1,180	1,396	1,567	1,835
Amortization	-	-	1	-	2	-
EBITDA	1,011	1,485	1,122	4,588	3,356	6,414
Charges:						
Restructuring charge	-	83	381	336	588	928
Non-cash expenses:						
Amortization of restricted stock	323	274	907	805	1,204	550
EBITDA, before charge	$ 1,334	$ 1,842	$ 2,410	$ 5,729	$ 5,148	$ 7,892

Net income (loss) from continuing operations, before charge, is calculated as follows:
(In thousands of dollars)

	Three Months Ended September 30, (Unaudited)		**Nine Months Ended September 30, (Unaudited)**		**Trailing Twelve Months Ended September 30, (Unaudited)**	
	2008	2009	2008	2009	2008	2009
Net income (loss) from continuing operations	$ 503	$ 893	$ (337)	$ 3,013	$ 1,418	$ 4,310
Charge:						
Restructuring charge	-	83	381	336	588	928
Net income (loss) from continuing operations before charge	$ 503	$ 976	$ 44	$ 3,349	$ 2,006	$ 5,238

Due to the Company's closure of its operations in Europe, results presented in this news release reflect European operations as discontinued operations for all periods and, unless stated otherwise, all financial results reflect continuing operations only. To assist readers in understanding the overall results of the Company, the trajectory of improvements over the past few years and the full drag of European operations on EMAK's historical results, EBITDA information representing the results of the total Company follows at the end of this release and includes both continuing and discontinued operations of the Company.

Third Quarter 2009 Results at a Glance

Results from continuing operations
(In thousands of dollars)

	Three Months Ended September 30, (Unaudited)						
	2008	**% of revenues**		**2009**	**% of revenues**		**% change**
Revenues by segment:							
Agency services	$ 9,276	30.4%		$ 7,090	20.9%		-23.6%
Promotional products	21,191	69.6%		26,802	79.1%		26.5%
	30,467	100.0%		33,892	100.0%		11.2%
Gross profit by segment:							
Agency services gross profit	3,255	35.1%	(a)	1,643	23.2%	(a)	-49.5%
Promotional products gross profit	4,984	23.5%	(a)	6,165	23.0%	(a)	23.7%
	8,239	27.0%		7,808	23.0%		-5.2%
Operating expenses	7,681	25.2%		6,846	20.2%		-10.9%
Operating income from continuing operations	558	1.8%		962	2.8%		72.4%
Net income from continuing operations	503	1.7%		893	2.6%		77.5%
Loss from discontinued operations	(2,012)	-6.6%		(20)	-0.1%		-99.0%
Net income (loss)	(1,509)	-5.0%		873	2.6%		N.M.
Non-GAAP financial highlights							
EBITDA	1,011	3.3%		1,485	4.4%		46.9%
EBITDA before charge and non-cash expenses	1,334	4.4%		1,842	5.4%		38.1%

(a) Percentage of segment revenues

Third Quarter 2009 Financial Summary

Overview

Revenues for the third quarter were $33.9 million, an increase of 11.2 percent from the $30.5 million posted in the year-ago quarter. Higher revenues at the Company's Equity Marketing, Logistix and Neighbor agencies were offset by lower revenues at Upshot. The lower services revenues were fully-anticipated due to the transition in Upshot's client roster.

Gross profit margin for the third quarter of 2009 was 23.0 percent compared to 27.0 percent in the year-ago quarter and reflected stable margins in Promotional Products offset by lower gross profit margins in Agency Services due to the lower level of revenues.

Operating expenses decreased 10.9 percent to $6.8 million compared to $7.7 million in the third quarter of 2008 as a result of continued cost-cutting efforts. Operating expenses include $318,000 in legal fees addressing recent corporate matters and $274,000 in non-cash expense related to grants of restricted stock, compared with approximately $90,000 and $323,000, respectively, recognized in the same period in 2008.

Third quarter net income from continuing operations was $893,000, or $0.09 per diluted share, compared with net income of $501,000, or $0.06 per diluted share, in the same period of the previous year.

Agency Services

In the third quarter of 2009, Agency Services revenues decreased 23.6 percent versus the year-ago quarter, reflecting incremental revenues at Neighbor offset by lower revenues at Upshot as it transitions out of work for MillerCoors, and as it ramps up work for its new clients in the beer and spirits categories.

"Our Agency Services businesses have shown resiliency and continue to represent EMAK's growth engine. Neighbor continues to progress after its early success winning new business. Upshot quickly replaced its MillerCoors business with two new clients, Crown Imports (including Corona and other brands) and Wild Turkey. Further, Upshot recently added the interactive expertise of Emerge Digital into the fold as a fully-integrated offering to its clients. An important part of the marketing mix, Emerge has cutting edge capabilities in web design, online promotions, social media, mobile phone marketing and branded interactive games as well as an impressive client roster of its own," commented Holbrook.

Promotional Products

Promotional Products revenues increased 26.5 percent in the third quarter of 2009, primarily reflecting a difference in the timing of large promotional programs versus the prior year.

Promotional Products gross profit margin was flat when compared with the prior-year period, reflecting stability in pricing and costs in the production and supply chain.

Since 2000, when EMAK's Promotional Product revenues peaked at $208.6 million, its agencies have been faced with many industry-wide challenges, including rising manufacturing costs in Asia, incremental costs from rising QA/QC standards, pricing pressures from intense competition, advertising regulations, and kids getting "older younger," so the market for premium toys has been on a steady decline.

"As we announced recently, EMAK's Equity Marketing agency will be transitioning out of work for its largest client over the next three quarters. Despite this change in our client roster, the client feedback for Equity Marketing has always pointed to better, faster and more cost effective service and execution than its competition. Equity Marketing's successful, decades-long client relationship was a direct result of our institutional knowledge, the leadership the agency provided in problem solving and the innovative thinking we offered for development and manufacturing. In its 26-year history, the agency has produced more than four billion units for a variety of blue chip clientele, and its production standards exceed those of the world's largest consumer products companies," said Holbrook.

Balance Sheet and Financial Condition

The balance of cash and cash equivalents at September 30, 2009 was $13.7 million, an increase of $7.9 million versus the end of last year. The Company had no debt at the end of either period.

The Company generated $8.3 million of cash from operations during the first nine months of 2009, versus generating $6.9 million in the same period in 2008.

Working capital was $11.9 million and the current ratio was 1.5, versus working capital of $7.2 million and a current ratio of 1.3 at the end of 2008.

EMAK's unused $7.5 million credit facility provides the Company with adequate liquidity. Aside from letters of credit securing long-term lease obligations and commercial letters of credit to vendors, EMAK has not borrowed against the facility in the last two years.

Nine-Month 2009 Results at a Glance

Results from continuing operations
(In thousands of dollars)

	Nine Months Ended September 30, (Unaudited)						
	2008	**% of revenues**		**2009**	**% of revenues**		**% change**
Revenues by segment:							
Agency services	$ 24,414	24.3%		$ 24,719	25.0%		1.2%
Promotional products	76,203	75.7%		74,026	75.0%		-2.9%
	100,617	100.0%		98,745	100.0%		-1.9%
Gross profit by segment:							
Agency services gross profit	8,139	33.3%	(a)	7,596	30.7%	(a)	-6.7%
Promotional products gross profit	15,140	19.9%	(a)	15,767	21.3%	(a)	4.1%
	23,279	23.1%		23,363	23.7%		0.4%
Operating expenses	23,489	23.3%		20,141	20.4%		-14.3%
Operating income (loss) from continuing operations	(210)	-0.2%		3,222	3.3%		N.M.
Net income (loss) from continuing operations	(337)	-0.3%		3,013	3.1%		N.M.
Income (loss) from discontinued operations	(2,628)	-2.6%		4,410	4.5%		N.M.
Net income (loss)	(2,965)	-2.9%		7,423	7.5%		N.M.
Non-GAAP financial highlights							
EBITDA	1,122	1.1%		4,588	4.6%		308.9%
EBITDA before charge and non-cash expenses	2,410	2.4%		5,729	5.8%		137.7%

(a) Percentage of segment revenues

Nine-Month 2009 Financial Summary

Revenues for the first nine months were $98.7 million, a decrease of 1.9 percent from the $100.6 million posted in the year-ago period.

Gross profit margin for the first nine months of 2009 was 23.7 percent compared to 23.1 percent in the year-ago period.

Operating expenses decreased 14.3 percent in the first nine months of 2009 as a result of continued cost-cutting efforts. Operating expenses include $523,000 in legal fees addressing corporate matters and $805,000 in non-cash expense related to grants of restricted stock, compared with $219,000 and $907,000, respectively, recognized in the same period in 2008.

Net income from continuing operations for the first nine months of 2009 was $3.0 million, or $0.32 per diluted share, compared with net loss of $337,000, or ($0.05) per diluted share, in the same period of the previous year.

Recent Corporate Developments

Holbrook commented on the shareholder consent campaign launched by the group of investors including EMAK's former CEO, which is also a plaintiff in the recently filed shareholder lawsuits. "By now EMAK's investors are aware of the costly and disruptive shareholder lawsuits and consent campaign that have been launched by Don Kurz's group. As we announced previously, we believe that the allegations in the lawsuits are utterly without merit and we intend to fight against them vigorously. Lamentably, EMAK's legal fees are beginning to mount, and we project that fees could run as high as $150,000 per month. Further, we believe the initiation of a consent campaign only serves to interfere with our progress and could have serious adverse effects on the various ongoing new business initiatives that we are pursuing. We urge investors to ignore and recycle all materials received directly from this group, including its letter to shareholders dated October 19, 2009 and corresponding white consent card."

Also announced recently, in order to level the playing field for all stakeholders, EMAK's Preferred stockholder gave up its two appointed board seats in exchange for the right to vote on the election of all Directors on an as-converted basis.

Outlook

"Our expectations for positive EBITDA before charges and positive cash flow for 2009 remain unchanged," Holbrook reiterated. "One comment about our recent change in client roster: we'd like to keep good client relationships in place forever, obviously, but sometimes clients change direction. It's our job to bring to bear our core strengths and deliver on our promise to get consumers to participate with our clients' brands, better than any other agency.

"As I look forward, it is my expectation that in 2010 we will generate EBITDA in a range of approximately $2.5 million to $3.5 million, and our projection for 2011 is an EBITDA range of approximately $4 million to $6 million. Further details on our three-year business outlook will be published in the coming weeks."

Additional Information

For additional financial information, EMAK has posted full third quarter and nine-month 2009 financial statements to its website. Interested parties can access these financial statements, as well as historical statements previously posted, at www.emak.com, by visiting the Investor Info section of the website under "Financial Reports."

About EMAK Worldwide, Inc.

EMAK Worldwide, Inc. is the parent company of a family of marketing services agencies including Equity Marketing, Logistix, Neighbor and Upshot. Its agencies are experts in "consumer activation" by offering strategy-based marketing programs that directly impact consumer behavior. The agencies provide strategic planning and research, consumer insight development, entertainment marketing, design and manufacturing of custom promotional products, kids marketing, event marketing, shopper marketing and environmental branding. The Company's blue-chip clients include Kellogg, Kohl's, Kraft, Macy's, Procter & Gamble and Safeway, among others. Headquartered in Los Angeles, EMAK has offices in Chicago and Hong Kong. More information about EMAK Worldwide is available on the Company's website at www.emak.com.

Certain expectations and projections regarding the future performance of EMAK Worldwide, Inc. discussed in this news release are forward-looking and are made under the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These expectations and projections are based on currently available competitive, financial and economic data along with the Company's operating plans and are subject to future events and uncertainties. Management cautions the reader that the following factors, among others, could cause the Company's actual consolidated results of operations and financial position in 2009 and thereafter to differ significantly from those expressed in forward-looking statements: the Company's dependence on a single customer; the significant quarter-to-quarter variability in the Company's revenues and net income; the Company's dependence on the popularity of licensed entertainment properties and the ability to license, develop and market new products; the Company's dependence on foreign manufacturers; the Company's need for additional working capital; the negative results of litigation, governmental proceedings or environmental matters; and the potential negative impact of past or future acquisitions. The Company undertakes no obligation to publicly release the results of any revisions to forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. The risks highlighted herein should not be assumed to be the only items that could affect the future performance of the Company.

Historical EBITDA, including European operations, before charges (gains) and non-cash expenses, is calculated as follows:
(In thousands of dollars)

	Three Months Ended September 30, (Unaudited)	**Nine Months Ended September 30, (Unaudited)**	**Twelve Months Ended September 30, (Unaudited)**	**Twelve Months Ended December 31, (Unaudited)**
	2007	2007	2007	2007
Net loss	$ (3,736)	$ (8,148)	$ (7,900)	$ (7,616)
Interest expense (income), net	16	(56)	37	(75)
Provision (benefit) for income taxes	(85)	111	(294)	212
Depreciation	384	1,111	1,496	1,536
Amortization	20	59	95	60
EBITDA	(3,401)	(6,923)	(6,566)	(5,883)
Charges:				
Restructuring charges (gain)	--	--	(97)	584
Impairment of assets	3,265	3,265	3,265	3,298
Non-cash expenses:				
Amortization of restricted stock	340	1,150	1,612	1,441
EBITDA, before charges (gain) and non-cash expenses	$ 204	$ (2,508)	$ (1,786)	$ (560)

	Three Months Ended September 30, (Unaudited)	**Nine Months Ended September 30, (Unaudited)**	**Twelve Months Ended September 30, (Unaudited)**	**Twelve Months Ended December 31, (Unaudited)**
	2008	2008	2008	2008
Net loss	$ (1,509)	$ (2,965)	$ (2,433)	$ (2,011)
Interest expense (income), net	18	66	47	84
Provision (benefit) for income taxes	48	203	304	294
Depreciation	460	1,252	1,677	1,697
Amortization	-	1	2	1
EBITDA	(983)	(1,443)	(403)	65
Charges:				
Restructuring charges	949	1,376	1,960	2,010
Impairment of assets	13	13	46	68
Non-cash expenses:				
Amortization of restricted stock	354	1,006	1,297	755
EBITDA, before charges and non-cash expenses	$ 333	$ 952	$ 2,900	$ 2,898

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