

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: 1996-11-14 | Period of Report: 1996-09-30
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FILER

EQUITY MARKETING INC

CIK: 911151 | IRS No.: 133534145 | State of Incorporation: DE | Fiscal Year End: 1231
Type: 10-Q | Act: 34 | File No.: 000-23346 | Film No.: 96666065
SIC: 3944 Games, toys & children's vehicles (no dolls & bicycles)

Mailing Address
131 SOUTH RODEO DRIVE
BEVERLY HILLS CA 90212

Business Address
131 SOUTH RODEO DR
BEVERLY HILLS CA 90212
3108874300

Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

or

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission File Number: 23346

EQUITY MARKETING, INC.
(Exact name of registrant as specified in its charter.)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

13-3534145
(I.R.S. Employer
identification No.)

131 SOUTH RODEO DRIVE
BEVERLY HILLS, CA
(Address of principal executive offices)

90212
(Zip Code)

(310) 887-4300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter periods that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

Yes X No
---- ----

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practical date:

Common Stock, \$.001 Par Value, 5,641,512 shares as of November 11, 1996

EQUITY MARKETING, INC.

Index To Quarterly Report on Form 10-Q
Filed with the Securities and Exchange Commission
Three Months Ended September 30, 1996

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EQUITY MARKETING, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

ASSETS

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996 ----- (UNAUDITED) <C>	DECEMBER 31, 1995 ----- <C>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,470	\$ 3,940
Marketable securities	---	11,935
Accounts receivable, net of allowances of \$443 and \$200 as of September 30, 1996 and December 31, 1995, respectively	16,595	1,749
Production-in-process and inventory	11,023	3,296
Prepaid expenses and other current assets	2,197	2,119
	-----	-----
Total current assets	34,285	23,039
FIXED ASSETS, net	2,183	1,980
GOODWILL AND OTHER INTANGIBLE ASSETS, net	5,659	391
OTHER ASSETS	729	852
	-----	-----
Total assets	\$42,856 =====	\$26,262 =====

</TABLE>

The accompanying notes are an integral part of these condensed consolidated balance sheets.

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EQUITY MARKETING, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	(UNAUDITED)	
<S>	<C>	<C>
CURRENT LIABILITIES:		
Accounts payable	\$12,741	\$ 5,726
Accrued liabilities	8,618	3,896
Deferred revenue	228	971
	-----	-----
Total current liabilities	21,587	10,593
LONG TERM LIABILITIES	1,006	787
	-----	-----
Total Liabilities	22,593	11,380
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.001 par value per share; 1,000,000 shares authorized, none issued or outstanding	---	---
Common stock, par value \$.001 per share, 20,000,000 shares authorized, 5,588,512 and 5,509,682 shares outstanding as of September 30, 1996 and December 31, 1995, respectively	---	---
Additional paid-in capital	8,604	8,241
Retained earnings	13,005	7,990
	-----	-----
	21,609	16,231
Less--		
Treasury stock, 1,897,670 and 1,907,100 shares, at cost, as of September 30, 1996 and December 31, 1995, respectively	(1,282)	(1,285)
Stock subscription receivable	(64)	(64)
	-----	-----
Total stockholders' equity	20,263	14,882
	-----	-----
Total liabilities and stockholders' equity	\$42,856	\$26,262
	=====	=====

</TABLE>

The accompanying notes are an integral part of these condensed consolidated balance sheets.

EQUITY MARKETING, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
REVENUES	\$20,099	\$19,254	\$76,714	\$46,750
COST OF SALES	14,278	15,136	56,926	35,441
	-----	-----	-----	-----
Gross Profit	5,821	4,118	19,788	11,309

OPERATING EXPENSES:				
Salaries, wages and benefits	2,328	1,912	7,523	4,777
Selling, general and administrative	1,734	1,338	4,638	3,641
Total operating expenses	4,062	3,250	12,161	8,418
Income from operations	1,759	868	7,627	2,891
INTEREST INCOME, net	66	139	224	288
Income before provision for income taxes	1,825	1,007	7,851	3,179
PROVISION FOR INCOME TAXES	667	404	2,836	1,266
Net income	\$1,158	\$ 603	\$ 5,015	\$ 1,913
NET INCOME PER SHARE	\$.20	\$.11	\$.85	\$.34
WEIGHTED AVERAGE SHARES OUTSTANDING	5,924,223	5,710,735	5,903,944	5,696,860

</TABLE>

The accompanying notes are an integral part of these condensed consolidated statements.

EQUITY MARKETING, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

<TABLE>
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$5,015	\$ 1,913
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	609	374
Provision for doubtful accounts	243	---
Non-cash rent	219	---
Loss on disposition of fixed assets	---	14
Other	6	---
Changes in assets and liabilities:		
Increase (decrease) in cash and cash equivalents --		
Accounts receivable	(13,980)	8,842
Production-in-process and inventory	(5,800)	(2,024)
Prepaid expenses and other assets	670	(466)
Other assets	147	59
Accounts payable	5,915	(2,138)
Accrued liabilities	1,041	(602)
Deferred revenue	(743)	1,956
Net cash (used in) provided by operating activities	(6,658)	7,928
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(31,807)	(23,719)
Proceeds from sales and maturities of marketable securities	43,742	13,326

Purchases of Fixed Assets	(506)	(1,246)
Payment for purchase of EPI Group Limited	(4,840)	--
	-----	-----
Net cash provided by (used in) investing	6,589	(11,639)
CASH PurchasesMofItreasuryAstocKTIIE.:.	---	(368)
	-----	-----
Proceeds from exercise of stock options	76	---
Tax benefit from exercise of stock options	240	---
	-----	-----
Net cash provided by (used in) financing activities	316	(368)
Net increase in cash and cash equivalents	247	(4,079)
CASH AND CASH EQUIVALENTS, beginning of period	3,940	5,765
CASH ACQUIRED IN PURCHASE, OF EPI GROUP LIMITED	283	---
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 4,470	\$ 1,686
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
CASH PAID FOR:		
Interest	\$ 91	\$ 20
	=====	=====
Income taxes.	\$ 4,317	\$ 2,277
	=====	=====

</TABLE>

The accompanying notes are an integral part of these condensed consolidated statements.

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EQUITY MARKETING, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(000'S OMITTED EXCEPT SHARE AND PER SHARE DATA)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the opinion of management and subject to year-end audit, the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The results of operations for the interim periods are not necessarily indicative of the results for a full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1995.

Certain reclassifications have been made to the accompanying condensed consolidated financial statements to conform them with the current period presentation.

PRODUCTION IN PROCESS AND INVENTORY

Production-in-process represents direct costs related to product development, procurement and tooling which are capitalized and amortized over the life of the related products. Inventory represents products held for sale to customers and finished products in transit to customers' distribution centers. Inventory is valued at the lower of cost or market on a first in, first out basis.

NET INCOME PER SHARE

Net income per share was computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding during each period. Common share equivalents represent stock options and warrants and are included in the weighted average shares pursuant to the treasury stock method.

NOTE 2 - ACQUISITION

On September 18, 1996, the Company acquired 100 percent of the outstanding common stock of EPI Group Limited ("EPI"), a Delaware corporation, for approximately \$2,900 in cash plus additional contingent cash consideration based on the results of EPI's operations, as defined in the stock purchase agreement, during the three year period ending December 31, 1999 ("the Acquisition").

The Acquisition is being accounted for as a purchase and accordingly, the results of operations of EPI for the period from September 18, 1996 to September 30, 1996 are included in the consolidated operating results of the Company for the three and nine month periods ended September 30, 1996. The purchase price has been preliminarily allocated to the acquired net assets based on their estimated fair values as of the acquisition date. As of September 30, 1996, the excess of the purchase price over the estimated fair values of the net assets acquired was \$5,445 and is being amortized on a straight line basis over 20 years.

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The following unaudited pro-forma information presents a summary of the consolidated results of operations of the Company and EPI as if the acquisition had occurred at the beginning of 1995 and includes pro-forma adjustments to give effect to the amortization of goodwill, and decreased interest income associated with funding the Acquisition and certain other adjustments, together with the related income tax effects. The pro-forma financial information is presented for informational purposes only and may not be indicative of the results of operations as they would have been if the Company and EPI had been a single entity during 1995 and during the nine months ended September 30, 1996, nor is it necessarily indicative of the results of operations which may occur in the future.

<TABLE>
<CAPTION>

	NINE MONTHS ENDED	

	SEPTEMBER 30,	

	1996	1995
	----	----
<S>	<C>	<C>
Revenues	\$ 80,761	\$ 51,309
Income from Operations	\$ 7,203	\$ 3,792
Net Income	\$ 4,657	\$ 2,371
Net Income Per Share	\$.79	\$.42
Weighted Average Shares Outstanding	5,903,944	5,696,860

</TABLE>

The Company is in the process of working with independent consultants to obtain valuations of the individual assets. The allocation of the excess purchase price may change based upon these valuations. This acquisition has been structured as a non-taxable transaction and deferred taxes may need to be recorded for the basis differential (if any) of the net assets acquired.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained herein, the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations include forward looking statements. Actual results could vary from those expected due to a variety of factors or risks including, for example, the potential cancellation of promotions due to delays in the timing of theatrical motion picture releases, the ability to renew licenses under favorable terms, the Company's dependence on a single customer, quarterly fluctuations in financial results, changes in international tariff rates, difficulties of integrating acquisitions and other risks detailed from time to time in the Company's SEC reports. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, the Company's operating results as a percentage of total revenues:

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996 ----	1995 ----	1996 ----	1995 ----
<S>	<C>	<C>	<C>	<C>
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales	71.0%	78.6%	74.2%	75.8%
	-----	-----	-----	-----
Gross Profit	29.0%	21.4%	25.8%	24.2%
Operating Expenses:				
Salaries, wages and benefits	11.6%	9.9%	9.8%	10.2%
Selling, general and administrative	8.6%	7.0%	6.0%	7.8%
	-----	-----	-----	-----
Total operating expenses	20.2%	16.9%	15.8%	18.0%
	-----	-----	-----	-----
Income from operations	8.8%	4.5%	10.0%	6.2%
Interest Income, net	0.3%	0.7%	0.3%	0.6%
	-----	-----	-----	-----
Income before provision for income taxes	9.1%	5.2%	10.3%	6.8%
Provision for Income Taxes	3.3%	2.1%	3.7%	2.7%
	-----	-----	-----	-----
Net Income	5.8%	3.1%	6.6%	4.1%
	=====	=====	=====	=====

</TABLE>

Three months ended September 30, 1996 compared to three months ended September 30, 1995 (000's omitted):

Revenue for the three months ended September 30, 1996 increased \$845 to \$20,099 from \$19,254 in 1995 as a result of increases in Toys revenue partially offset by decreases in Promotions revenue. Promotions revenue decreased \$2,297 to \$13,939 from \$16,236 in 1995 due to fewer international promotions during the three months ended September 30, 1996 compared to the same period in 1995. Toys revenue

increased \$3,142 to \$6,160 from \$3,018 in 1995 primarily due to increases in sales under the Company's multi-year Warner Bros. International Looney Tunes license to various international distributors and sales of products based on the PBS television property, Wishbone.

Cost of sales decreased \$858 to \$14,278 (71.0% of revenues) for the three months ended September 30, 1996 from \$15,136 (78.6% of revenues) in the comparable period in 1995 primarily due to higher gross margins realized on the higher volume of Toys sales in 1996.

Salaries, wages and benefits increased \$416 to \$2,328 (11.6% of revenues) in 1996 from \$1,912 (9.9% of revenues) in 1995 primarily due to the addition of 17 employees to support the increased sales volume and higher incentive compensation recorded as a result of the increased income in 1996.

Selling, general and administrative expenses increased \$396 to \$1,734 (8.6% of revenues) in 1996 from \$1,338 (7.0% of revenues) in 1995 primarily due to higher infrastructure requirements and increased selling costs associated with the higher Toys sales volume in 1996.

Income from operations increased \$891 to \$1,759 (8.8% of revenues) for the three months ended September 30, 1996 from \$868 (4.5% of revenues) in the comparable period in 1995 primarily due to higher gross margin Toys sales in 1996.

The effective tax rate for the three months ended September 30, 1996 was 36.6% compared to the effective tax rate of 40.1% in 1995. The effective tax rate was lower in 1996 as a result of differences in the locations to which products were shipped in 1996.

Nine months ended September 30, 1996 compared to nine months ended September 30, 1995 (000's omitted):

Revenue for the nine months ended September 30, 1996 increased \$29,964 to \$76,714 from \$46,750 in the comparable period in the prior year due to increases in both Promotions and Toys revenues. Promotions revenue increased \$25,286 to \$63,246 from \$37,960 in 1995 due to a high volume promotion associated with a major motion picture release in June 1996 as well as to an increase in the overall number of promotions sold in 1996. Toys revenues increased \$4,678 to \$13,468 from \$8,790 in 1995 primarily due to increases in sales under the Company's multi-year Warner Bros. International Looney Tunes license to various international distributors and sales of products on the PBS television property, Wishbone.

Cost of sales increased \$21,485 to \$56,926 (74.2% of revenues) for the nine months ended September 30, 1996, from \$35,441 (75.8% of revenues) in the comparable period in 1995. Gross margins for the nine months increased to 25.8% in 1996 from 24.2% in 1995 primarily as a result of higher margins on Toys sales in 1996.

Salaries, wages and benefits increased \$2,746 to \$7,523 (9.8% of revenues) in 1996 from \$4,777 (10.2% of revenues) in 1995 due to increases in the number of employees and higher incentive compensation recorded as a result of the increased income in 1996.

Selling, general and administrative expenses increased \$997 to \$4,638 (6.0% of revenues) in 1996 from \$3,641 (7.8% of revenues) in 1995 primarily due to higher infrastructure requirements and increased selling costs associated with the higher retail Toys sales volume in 1996.

Income from operations increased \$4,736 to \$7,627 (10.0% of revenues) for the nine months ended September 30, 1996, from \$2,891 (6.2% of revenues) in the comparable period in 1995, primarily due to the higher sales volume and higher gross profit margins in 1996.

The effective tax rate for the nine month period ended September 30, 1996 was 36.1% compared to the effective tax rate of 39.8% for the nine month period ended September 30, 1995. The effective tax rate was lower in 1996 as a result of differences in the locations to which products were shipped in 1996.

FINANCIAL CONDITION AND LIQUIDITY (000'S OMITTED):

At September 30, 1996 working capital was \$12,698 as compared to \$12,446 at December 31, 1995. The increase in working capital is primarily a result of profits for the nine months ended September 30, 1996 partially offset by current liabilities in excess of current assets acquired in the Acquisition discussed in Note 2 above.

As of September 30, 1996, the Company's investment in accounts receivable increased \$14,846 compared to December 31, 1995 due to a large promotion associated with a motion picture home video release in September 1996 and due to the acquisition of accounts receivable in connection with the Acquisition. As of October 31, 1996, the majority of these accounts receivables had been collected. The cost of manufacturing for this promotion was funded through the use of the company's cash.

Production-in-process and inventory increased \$7,727 due to purchases of inventory in transit to customer's distribution centers in connection with a promotion associated with a major motion picture home video release in October 1996. As of October 31, 1996, the majority of this inventory had been sold. The increase in production-in-process and inventory was also attributable to inventory acquired in the Acquisition.

At September 30, 1996 accounts payable and accrued liabilities increased \$11,737 compared to December 31, 1995. This increase was primarily attributable to manufacturing costs associated with shipments related to the promotions run in September and October 1996 discussed in the paragraph above and due to liabilities acquired in connection with the Acquisition. In addition to the Acquisition, the Company is exploring the possibility of acquiring other companies to further diversify its business, although no assurance can be given that the Company will find suitable acquisition candidates or that it will be successful in consummating such transactions. If the Company is successful in finding suitable acquisition candidates, such transactions would be financed, depending on availability and market conditions, through the use of the Company's existing funds, issuing additional equity or debt, bank financing or a combination of these sources.

CREDIT FACILITIES

On January 26, 1996, the Company entered into a credit agreement with Sanwa Bank California and Imperial Bank which makes available to the Company a line of credit of up to \$25 million. The line of credit is secured by substantially all of the Company's assets and expires on April 30, 1998.

Subject to the financing requirements of any potential acquisitions, the Company believes that the line of credit and internally generated funds will provide adequate financing for its current and expected levels of operations.

PART II.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's 1996 Annual Meeting Shareholders was held on July 16, 1996. Each of the following persons was re-elected for an additional one-year term as a director of the Company:

<TABLE>
<CAPTION>

NAME ----	VOTES FOR -----	VOTES WITHHELD -----
<S>	<C>	<C>
Lawrence Elins	5,323,866	1,000
Merrill M. Kraines	5,323,366	1,500
Donald A. Kurz	5,323,866	1,000
Bruce Raben	5,323,866	1,000
Stephen P. Robeck	5,323,866	1,000

</TABLE>

The selection of Arthur Andersen LLP as the Company's independent auditor was ratified by a vote of 5,320,586 shares for, 900 shares against and 3,380 shares abstaining.

A proposal to amend the Equity Marketing, Inc. Stock Option Plan to permit additional grants and issuances thereunder was approved by a vote of 4,536,521 shares for, 41,150 shares against, 8,830 shares abstaining and 738,365 shares not voted. In addition, a proposal to amend the Equity Marketing, Inc. Non-Employee Director Stock Option Plan to permit additional grants and issuances thereunder was approved by a vote of 4,156,453 shares for, 51,980 shares against, 9,100 shares abstaining and 1,107,333 shares not voted.

ITEM 6.

EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 10.1 Employment Agreement dated August 5, 1996 between Equity Marketing, Inc. and Albert R. Ovardia
- 10.2 Employment Agreement dated September 18, 1996 between Equity Marketing, Inc. and Christopher Reynolds
- 10.3 Employment Agreement dated September 18, 1996 between Equity Marketing, Inc. and Merryl L. Reynolds
- 10.4 Employment Agreement dated September 18, 1996 between Equity Marketing, Inc. and Ronda L. Drummond

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- 10.5 First Amendment to Credit Agreement dated September 18, 1996 between Equity Marketing, Inc., Sanwa Bank California and Imperial Bank
- 10.6 Equity Marketing, Inc. Stock Option Plan (1)

- 10.7 Equity Marketing, Inc. Non-Employee Director Stock Option Plan (2)
- 10.8 Stock Purchase Agreement dated September 18, 1996 between Equity Marketing, Inc. and the Stockholders of EPI Group Limited (3)
- 27 Financial Data Schedule

(b) Reports on Form 8-K:

Report on Form 8-K filed with the Securities and Exchange Commission on October 2, 1996.

- (1) Previously filed as an exhibit to Registrant's Registration Statement on Form S-8 (Registration Statement No. 33-315499) which is incorporated herein by reference.
- (2) Previously filed as an exhibit to Registrant's Registration Statement on Form S-8 (Registration Statement No. 33-315493) which is incorporated herein by reference.
- (3) Previously filed as an exhibit to Registrant's Form 8-K filed on October 2, 1996 which is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 14th day of November, 1996.

EQUITY MARKETING, INC.

By: /s/ DONALD A. KURZ

Donald A. Kurz
President, Co-Chief Executive Officer

By: /s/ KENNETH M. FISHER

Kenneth M. Fisher
Senior Vice President and Chief
Financial Officer
(Principal Financial and
Accounting Officer)

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EMPLOYMENT AGREEMENT

This Employment Agreement (this "AGREEMENT") is made and entered as of the 5th day of August, 1996, by and between Equity Marketing, Inc., a Delaware corporation (the "COMPANY"), and Al Ovadia ("EMPLOYEE").

1. ENGAGEMENT AND DUTIES.

(a) Upon the terms and subject to the conditions set forth in this Agreement, the Company hereby engages and employs Employee as an officer of the Company, with the title and designation "Senior Vice President." Employee hereby accepts such engagement and employment.

(b) Provided that the Company has not previously notified Employee that he is in breach of this Agreement (unless such breach shall have been cured and corrected to the satisfaction of the Company), from and after August 5, 1997 Employee's title and designation shall be "Executive Vice President" in lieu of "Senior Vice President."

(c) Employee's duties and responsibilities shall be to manage and supervise, with income statement responsibility for, the Company's worldwide promotions business. In addition, Employee's duties shall include those duties and services for the Company and its affiliates as the Board or a Responsible Officer (as defined below) shall, in his or their sole and absolute discretion, from time to time reasonably direct which are not inconsistent with Employee's position as Senior or Executive Vice President.

(d) Employee agrees to devote all of his business time, energy and efforts to the

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business of the Company and will use his best efforts and abilities faithfully and diligently to promote the Company's business interests. For so long as Employee is employed by the Company, or for so long as Employee is receiving severance under Section 5(c) of this Agreement, Employee shall not, directly or indirectly, either as an employee, employer, consultant, agent, investor, principal, partner, stockholder (except as the holder of less than 1% of the issued and outstanding stock of a publicly held corporation), corporate officer or director, or in any other individual or representative capacity, engage or participate in any business that is in competition in any manner whatsoever with the business of the Company Group, as such businesses are now or hereafter conducted. Subject to the foregoing prohibition and provided such services or investments do not violate any applicable law, regulation or order, or interfere in any way with the faithful and diligent performance by Employee of the services to the Company otherwise required or contemplated by this

Agreement or duly requested by a Responsible Officer or the Board, the Company expressly acknowledges that Employee may:

(i) make and manage personal business investments of Employee's choice without consulting the Board; and

(ii) serve in any capacity with any civic, educational, charitable or trade organization with the prior approval of a Responsible Officer, which approval will not be unreasonably withheld.

2. DEFINITIONS. For the purposes of this Agreement, the following terms shall have the meanings set forth below:

"BOARD" shall mean the Board of Directors of the Company.

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"COMPANY GROUP" shall mean the Company and each Person which the Company directly or indirectly Controls.

"CONTROL" shall mean, with respect to any Person, (i) the beneficial ownership of more than 50% of the outstanding voting securities of such Person, or (ii) the power, directly or indirectly, by proxy, voting trust or otherwise, to elect a majority of the outstanding directors, trustees or other managing persons of such Person.

"EMPLOYMENT COMMENCEMENT DATE" shall mean August 5, 1996.

"EMPLOYMENT TERM" shall mean August 5, 1996 through December 31, 1998.

"FOR CAUSE" shall mean, in the context of a basis for termination of Employee's employment with the Company, that:

(a) Employee breaches any obligation, duty or agreement under this Agreement, which breach is not cured or corrected within 15 days of written notice thereof from the Company (except for breaches of Sections 1(c), 8 or 9 of this Agreement, which cannot be cured and for which the Employee shall have no opportunity to cure); or

(b) In the reasonable judgment of a Responsible Officer or the Board, Employee is grossly negligent in the course of providing services to the Company, or commits any act of personal dishonesty, fraud or breach of fiduciary duty or trust; or

(c) Employee is convicted of, or pleads guilty or nolo

contendere with respect to, theft, fraud, crime involving moral turpitude, or felony under federal or applicable state law;

(d) Employee commits any act or acts of personal conduct that, in the reasonable opinion of a Responsible Officer or the Board, gives rise to a material risk of liability under

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federal or applicable state law for discrimination or sexual or other forms of harassment or other similar liabilities to subordinate employees; or

(e) Employee commits continued and repeated substantive violations of specific directions of a Responsible Officer or the Board, which directions are consistent with this Agreement and Employee's position as an executive officer, or continued and repeated substantive failure to perform duties assigned by or pursuant to this Agreement; provided that no discharge shall be deemed For Cause under this subsection (e) unless Employee first receives written notice from the Company advising him of the specific acts or omissions alleged to constitute violations of written directions or a material failure to perform his duties, and such violations or material failure continue after he shall have had a reasonable opportunity to correct the acts or omissions so complained of; or

(f) Employee made any material misrepresentation or omission regarding his employment history, education or experience in connection with his negotiations to become an employee of the Company.

"PERSON" shall mean an individual or a partnership, corporation, trust, association, limited liability company, governmental authority or other entity.

"RELOCATION EXPENSES" shall mean the following expenses in connection with the relocation of Employee and his family from New Caanan, Connecticut to Los Angeles, California: (a) two round trip airline tickets (business class) from New Caanan to Los Angeles, for two adults and two children to be booked by the Company for travel dates designated by Employee; (b) up to two additional round trip airline tickets (business class) from New Caanan to

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Los Angeles for two adults to be booked by the Company for travel dates to be

designated by Employee; (c) reasonable hotel accommodations during Employee's relocation visits to Los Angeles to be booked by the Company; (d) reasonable expenses (including appropriate insurance coverage) associated with moving Employee's clothing, furnishings and two automobiles to Los Angeles; (e) reasonable expenses (including appropriate insurance coverage) associated with storage of Employee's furnishings and/or clothing prior to moving into a permanent residence in Los Angeles; (f) reasonable expenses associated with renting two automobiles in Los Angeles until Employee's automobiles arrive in Los Angeles; (g) closing costs associated with the sale of Employee's residence in New Caanan including, without limitation, a real estate brokerage commission (not to exceed 6% of the sale price), plus reasonable attorneys' fees; (h) closing costs associated with the purchase of a residence in Los Angeles, California (including loan fees up to a maximum of two points of the principal amount of the loan), reasonable attorneys' fees in connection with negotiation of a real estate purchase contract and the closing, but not including any real estate brokerage fees (which are customarily paid by the seller); and (i) reasonable expenses associated with up to six months' temporary housing prior to moving into a permanent residence in Los Angeles.

"RESPONSIBLE OFFICER" shall mean one or more officers of the Company designated by the Board with titles senior to the title held by Employee, or if no such officer shall have been so designated, the Board.

3. COMPENSATION; EMPLOYEE BENEFIT PLANS.

(a) Signing Bonus. Within five business days following the date Employee

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6 commences his employment pursuant to this Agreement, the Company shall pay to Employee a signing bonus of \$125,000 (the "SIGNING BONUS").

(b) Base Salary. The Company shall pay to Employee a base salary (the "BASE SALARY") at an annual rate of \$250,000 during the period August 5, 1996 through August 4, 1997, and at an annual rate of \$300,000 during the period August 5, 1997 through December 31, 1998. The Base Salary shall be payable in installments throughout the year in the same manner and at the same times the Company pays base salaries to other executive officers of the Company.

(c) Bonus. Employee shall be entitled to bonus compensation as follows:

(i) During each calendar year of his employment (including the first partial calendar year) Employee shall be entitled to a

bonus if he and/or the Company attains certain goals, described as Individual Performance Goals (relating to goals specifically for the Employee), Business Unit Performance Goals (relating to goals for the business unit for which Employee is responsible) and Company Performance Goals (relating to the Company's overall performance) (such goals shall be collectively referred to as the "GOALS"). Of Employee's target aggregate bonus for each year other than 1996, 20% shall be allocated to meeting Individual Performance Goals, 40% shall be allocated to meeting the Business Unit Performance Goal, and 40% shall be allocated to meeting the Company Performance Goal.

(ii) The Individual Performance Goals, the Business Unit Performance Goal and the Company Performance Goal for the first partial calendar year during the term of Employee's employment (the calendar year ended December 31, 1996), and the amount and

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calculations of the bonus for such period, are set forth in Exhibit A to this Agreement. The target aggregate bonus for meeting all Goals in calendar year 1996 shall be \$75,000. Prior to the beginning of 1997 and 1998, Employee and a Responsible Officer shall meet to discuss the potential Individual Performance Goals, the Business Unit Performance Goal and the Company Performance Goal for such years. A Responsible Officer shall thereafter establish the Goals for Employee for such years, generally consistent with the overall policies and objectives of the Company and the manner of establishing goals for other executive officers of the Company (excluding the Chief Executive Officers). If Employee believes that one or all of the proposed Goals or bonus allocation is not appropriate, Employee may request that the Board review his proposed Goals and/or bonus allocation for such year. The Board will review such proposed Goals and either confirm or modify such Goals, as it, in its sole and absolute discretion, deems appropriate. The target aggregate bonus for meeting all Goals in calendar year 1997 shall be \$100,000, and the target aggregate bonus for meeting all Goals in calendar year 1998 shall be \$125,000. To the extent that one or more Goals are materially exceeded during any calendar year, Employee shall be eligible for consideration for an additional bonus, at the sole discretion of the Responsible Officer or the Board, up to a maximum additional bonus of \$50,000 for calendar year 1997 and \$125,000 for calendar year 1998.

(iii) The bonus for any calendar year shall be paid no later than 90 days following the end of such calendar year.

(d) Relocation Expenses. The Company agrees to pay all Relocation Expenses of Employee. Employee acknowledges that all other costs and expenses incurred in connection

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with the relocation of Employee and his family shall be his responsibility, and shall not be the responsibility of the Company. The Company agrees to that the extent Relocation Expenses would constitute taxable income for federal and/or state income tax purposes, and are not offset by corresponding deductions which may be taken by Employee, the Company will reimburse Employee for such additional tax liability. If Employee believes he is entitled to reimbursement for the additional tax liability, the Employee shall make written demand therefor in writing to the Company (the "DEMAND"). The Demand shall set forth in reasonable specificity the basis for the claim for reimbursement. The Company shall have the opportunity to review the Demand. If the Company does not agree with the Demand, and the Company and Employee cannot agree on the proper reimbursement, the matter shall be submitted to the Company's auditors, whose determination shall be final and binding on the parties. The Company shall have no obligation to reimburse Employee until the last to occur of: (i) ten days prior to the date Employee advises the Company that he intends to file his federal and state income returns for calendar year 1996; (ii) fifteen business days from the date the Demand is submitted to the Company; and (iii) the date of resolution of any dispute with respect to the amount to be reimbursed (provided, however, that the Company shall advance any amount which is not in dispute within the time periods covered by Sections (i) and (ii) above).

(e) Reimbursement. Employee shall be entitled to reimbursement from the Company for the reasonable costs and expenses which he incurs in connection with the performance of his duties and obligations under this Agreement in a manner consistent with the Company's practices and policies for reimbursements for officers.

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(f) Automobile Allowance. Employee shall be entitled to an automobile allowance of \$1,000 per month through July 1997 and \$1,200 per month thereafter. The automobile allowance shall be paid in a manner consistent with the Company's practices and policies therefor.

(g) Group Benefit Plans. Employee shall be eligible to participate in the Company's group health, dental, life, disability, retirement (including 401(k)) and pension benefit plans, subject to the terms, conditions and limitations contained in the applicable plan documents and insurance policies.

(h) Vacation. Employee shall be entitled to three weeks paid vacation each year during the term of this Agreement. Employee shall have the right to carryover unused vacation to the extent permitted by the Company's policies from time to time in effect.

(i) Disability Benefits. In the event of any disability or illness of Employee, if Employee shall receive payments as a result of such disability or illness under any disability plan maintained by the Company, the Company shall be entitled to deduct the amount of such payments received from Base Salary payable to Employee during the period of such illness and/or disability.

(j) Withholding. The Company may deduct from any compensation payable to Employee the minimum amounts sufficient to cover applicable federal, state and/or local income tax withholding, old-age and survivors' and other social security payments, state disability and other insurance premiums and payments.

4. TERM OF EMPLOYMENT. Employee's employment pursuant to this Agreement shall

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commence on the Employment Commencement Date and shall terminate on the earliest to occur of the following:

(a) upon 30 days' written notice from Employee to the Company at any time after the end of the Employment Term;

(b) upon the death of Employee;

(c) upon delivery to Employee of written notice of termination by the Company if Employee shall suffer a physical or mental disability which renders Employee, in the reasonable judgment of a Responsible Officer, unable to perform his duties and obligations under this Agreement for 90 days in any 12-month period;

(d) upon delivery to Employee of written notice of termination by the Company For Cause; or

(e) upon delivery to Employee of written notice of termination by the Company without cause.

5. SEVERANCE COMPENSATION.

(a) If Employee's employment is terminated pursuant to Section 4(b) (death) or Section 4(c) (disability), Employee's Base Salary and other benefits shall cease as of the date of termination, and Employee shall be eligible for bonus compensation for the year in which his employment is terminated as follows: With respect to Business Unit Performance Goals and Company Performance Goals, the bonus shall be determined as if Employee's employment had not terminated during such calendar year, except that Employee's bonus shall equal the amount which the bonus would have been with respect to each such Goal multiplied by a fraction, the

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numerator of which is the number of days in such calendar year during which Employee was employed by the Company and the denominator of which is the number of days in such calendar year. With respect to his Individual Performance Goals, Employee acknowledges that those are unique goals personal to Employee and that the determination of whether such Goals shall have been met shall be made as of the date of termination of employment. Such determination shall be made by a Responsible Officer within 60 days following termination of Employee's employment. If it is determined that his Individual Performance Goals were achieved, in whole or in part, to the extent necessary to achieve all or a portion of the bonus for Individual Performance Goals for such year, such payment shall be made promptly following such determination.

(b) If Employee's employment is terminated pursuant to Section 4(a) (by Employee following end of Employment Term) or Section 4(d) (by the Company For Cause), Employee's Base Salary and other benefits shall cease as of the date of termination, and Employee shall not be entitled to any bonus for the calendar year during which his employment shall be terminated or at any time thereafter.

(c) (i) If Employee's employment is terminated pursuant to Section 4(e) (by the Company other than For Cause) prior to the end of the Employment Term, Employee shall be: (A) entitled to continue to receive Base Salary in accordance with Section 3 of this Agreement through the end of the Employment Term, payable when and in the manner as if Employee's employment had not terminated; (B) entitled to receive benefits (other than vacation) under Section 3 of this Agreement until the earlier of the date Employee accepts other employment or

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the end of the Employment Term; provided, however, that if insurance benefits do not commence for some grace period following commencement of Employee's new employment, the benefits under this Agreement shall continue until the earlier of the end of such grace period or 90 days from commencement of employment (and Employee agrees to promptly notify the Company of his acceptance of other employment); and (C) eligible for bonus compensation through the end of the calendar year in which his employment terminates. With respect to Business Unit Performance Goals and Company Performance Goals, the bonus shall be determined as if Employee's employment had not terminated (without proration). With respect to Individual Performance Goals, Employee acknowledges that those are unique goals personal to Employee and Employee shall be eligible for a bonus with respect such Goals only for the year in which his employment shall be terminated and then based upon whether those Goals shall have been met as of the date of termination of employment. Such determination shall be made by a Responsible Officer within 60 days following termination of Employee's employment. If it is determined that such Goals are achieved, in whole or in part, to the extent necessary to achieve all or a portion of the bonus for the Individual Performance Goals for such year, such payment shall be promptly made following such determination.

(ii) In addition, if Employee's employment is terminated by the Company without cause prior to 1998, Employee shall be eligible for a bonus of up to \$125,000 for 1998, based 50% on Employee's former business unit meeting the Business Unit Performance Goal for such year and 50% on the Company meeting the Company Performance Goal for such year. The Company Performance Goal for such year shall be the performance goal for the Company

established for executive officers generally in determining their eligibility for bonuses with respect to such year. If no such Company Performance Goal is established, the Company Performance Goal for 1998 with respect to this Agreement shall be the budgeted, pre-bonus pre-tax earnings of the Company for such year as set forth in the Company's business or operating plan for such year prepared in the ordinary course of business, exclusive of extraordinary transactions (such as acquisitions and mergers) and other matters which may have been excluded in determining the Company's achievement of Company Performance Goals for prior years. The Business Performance Unit Goal for 1998 shall be the budgeted, pre-bonus pre-tax earnings of Employee's former business unit which is used in computing the Company's Performance Goal for such year.

(iii) Any bonus to which Employee may be entitled for 1998 following termination of his employment by the Company without cause prior to 1998 shall be reduced on a dollar-for-dollar basis by Employee's Compensation Income for 1998 (such bonus, less such Compensation Income, shall be referred

to as a "1998 PAYMENT"). Employee's "COMPENSATION INCOME" for 1998 shall be Employee's compensation income for such year, whether earned as an employee, consultant or otherwise, including, without limitation, salary, hourly wages, signing, performance and other bonuses, consulting fees, and stock and option grants (less any amounts Employee pays for such stock and/or options), and regardless of whether such amounts are received by Employee in 1998 or are deferred into future periods. If Employee believes he is entitled to the 1998 Payment, he must deliver to the Company no later than February 28, 1999, a declaration under penalty of perjury which certifies his Compensation Income for 1998. The

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Company shall make the 1998 Payment within 30 days of receipt of such notice. If such notice is not delivered by February 28, 1998, Employee shall not be entitled to a 1998 Payment.

(d) If Employee terminates his employment in breach of this Agreement prior to the end of the Employment Term, Employee shall as of the date of termination cease to be entitled to Base Salary, benefits or bonuses. In addition, the Company shall be entitled to seek any other available remedies pursuant to this Agreement or otherwise for such breach, and to offset against any amounts due Employee any damages suffered as a result of such breach.

(e) In the event of termination of Employee's employment pursuant to Section 4(d) (by the Company For Cause), and subject to applicable law and regulations, the Company shall be entitled offset against any payments due Employee the loss and damage, if any, which shall have been suffered by the Company as a result of the acts or omissions of Employee giving rise to termination under Section 4(d). The foregoing shall not be construed to limit any cause of action, claim or other rights which the Company may have against Employee in connection with such acts or omissions.

(f) Employee acknowledges that the Company has the right to terminate Employee's employment other than For Cause and that such termination shall not be a breach of this Agreement or any other express or implied agreement between the Company and Employee. Accordingly, in the event of such termination, Employee shall be entitled only to those benefits specifically provided for in this Agreement in the event of such termination, and shall not have any other rights to any compensation or damages from the Company for breach of contract.

(g) (i) If Employee's employment is terminated by the Company pursuant to

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Section 4(d) (by the Company For Cause) or by Employee in breach in this Agreement on or prior to August 4, 1997, Employee shall reimburse the Company for the Signing Bonus and all Relocation Expenses paid by the Company, including any amounts paid to reimburse Employee for federal and/or state income taxes. Such reimbursement shall be made within 10 days following the termination of Employee's employment. The Company shall have the right to offset against any payments due from the Company to Employee all or any portion of such Signing Bonus and/or Relocation Expenses required to be reimbursed by Employee.

(ii) Notwithstanding the foregoing under Section 5(h)(i), if the Employee shall have terminated his employment following the date the Employee shall have given the Company notice of a Reasonable Complaint, which the Company has failed to cure within 30 days after the date of receipt of such notice, the Employee shall have no obligation to reimburse the Company for the Signing Bonus or Relocation Expenses. A "REASONABLE COMPLAINT" shall mean a development which is unforeseeable as of the date of this Agreement which materially and adversely affects Employee's ability to perform his services under this Agreement as a result of actions or inactions of a Responsible Officer or the Board, and is based on irreconcilable and unresolvable continuing differences of opinions between the Employee, on one hand, and the Board and/or Responsible Officer on the other hand, concerning the direction of the business unit for which Employee is responsible. It is understood that Reasonable Complaints do not relate to working hours, travel, or the economic terms of Employee's employment. Termination of employment by Employee for a Reasonable Complaint affects only Employee's obligation to reimburse the Company for the Signing Bonus or Relocation Expenses; and shall not be deemed

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to be a basis of termination by Employee not in breach of this Agreement, as such termination would continue to be in breach of this Agreement.

(h) Employee acknowledges that in the event of termination of his employment for any reason, he shall not be entitled to any severance or other compensation from the Company except as specifically provided in this Section 5. Without limitation on the generality of the foregoing, this Section supersedes any plan or policy of the Company which provides for severance to its officers or employees, and Employee shall not be entitled to any benefits under any such plan or policy.

6. STOCK OPTIONS.

(a) The Company has concurrently herewith granted to Employee an option to purchase 100,000 shares of the Common Stock of the Company under the Company's Employee Stock Option Plan (the "OPTION PLAN").

(b) If Employee's Individual Performance Goals are met for calendar years 1997 and 1998, it is the present intention of the Company to grant to Employee an option(s) to purchase additional shares of Common Stock under the Option Plan. It shall be within the sole discretion of the Board whether such option(s) shall be granted and, if granted, the number of shares subject to such option(s) and the terms and conditions of such option(s).

7. EMPLOYMENT FOLLOWING EMPLOYMENT TERM. If Employee's employment continues following the Employment Term:

(a) such employment shall continue to be "at will," and may be terminated either by the Employee upon 30 days written notice to the Company or by the Company at any time; and

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(b) except as otherwise agreed in writing, all of the provisions of this Agreement shall be applicable to such continued employment, other than: (i) Employee's compensation, which shall be only the Base Salary, at the rate in effect at the end of the Employment Term, without any bonus compensation; and (ii) the provisions of Section 4 shall be superseded to the extent discussed in this paragraph.

8. COVENANT NOT TO SOLICIT. During the period from the date Employee's employment with the Company terminates through the second anniversary of such date, Employee will not directly or indirectly, either alone or by action in concert with others: (a) induce or attempt to influence any employee of any member of the Company Group to engage in any activity in which Employee is prohibited from engaging by Section 1(c) of this Agreement or to terminate his or her employment with any member of the Company Group; or (b) employ or offer employment to any person who was employed by any member of the Company Group during the time of Employee's employment with the Company; or (c) induce or attempt to induce any customer, supplier, licensee or other business relationship of any member of the Company Group to cease or reduce its business with any member of the Company Group, or in any way interfere with the relationship between any such customer, supplier, licensee or business relationship and any member of the Company Group; or (d) solicit business from any of the Company's customers.

9. CONFIDENTIALITY. Employee will not at any time (whether during or

after his employment with the Company) disclose or use for his own benefit or purposes or the benefit or purposes of any other Person, other than any member of the Company Group, any trade secrets, information, data, or other confidential information relating to customers, development programs, costs,

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marketing, trading, investment, sales activities, promotion, credit and financial data, financial methods, plans, or the business and affairs of the Company Group generally, provided that the foregoing shall not apply to information which is generally known to the industry or the public other than as a result of Employee's breach of this covenant. Employee agrees that upon termination of his employment with the Company for any reason, he will return to the Company immediately all memoranda, books, papers, plans, information, letters and other data, and all copies thereof or therefrom, in any way relating to the business of the Company Group except that he may retain personal notes, notebooks, diaries, rolodexes and addresses and phone numbers. Employee further agrees that he will not retain or use for his account at any time any trade names, trademark or other proprietary business designation used or owned in connection with the business of any member of the Company Group.

10. SPECIFIC PERFORMANCE. Employee acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Section 1(c), 8 or 9 would be inadequate and, in recognition of this fact, Employee agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

11. RESOLUTION OF DISPUTES.

(a) Except as provided in subsection (c) below, any controversy or claim between or among the parties, relating to Employee's employment with the Company, including but not

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limited to those arising out of or relating to this Agreement or any agreements or instruments relating hereto or delivered in connection herewith and any claim based on or arising from an alleged tort, shall at the request of any party be determined by arbitration. The arbitration shall be conducted in Los

Angeles, California, in accordance with the United States Arbitration Act (Title 9, U.S. Code), notwithstanding any choice of law provision in this Agreement, and under the Commercial Rules of the American Arbitration Association ("AAA"). The parties shall have the right to review and approve a panel of prospective arbitrators supplied by AAA, but the arbitration shall be conducted by a single arbitrator selected from the approved panel by AAA or by stipulation of the parties. The arbitrator(s) shall give effect to statutes of limitation in determining any claim. Any controversy concerning whether an issue is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall be entitled to order specific performance of the obligations imposed by this Agreement. Judgment upon the arbitration award may be entered in any court having jurisdiction.

(b) All decisions of the arbitrator shall be final, conclusive and binding on all parties and shall not be subject to judicial review. All costs of the arbitration shall be borne by the party which is not the Prevailing Party (as defined in Section 12(h) of this Agreement). If required, each party shall advance 50% of any costs of the arbitration required to be advanced, subject to the right of the non- Prevailing Party to reimbursement.

(c) Subsection (a) above does not prohibit a party from seeking and obtaining injunctive relief pending the outcome of arbitration. A party bringing an action for injunctive relief shall not be deemed to have waived its right to demand arbitration of all disputes.

12. MISCELLANEOUS.

(a) Notices. All notices, requests, demands and other communications (collectively, "NOTICES") given pursuant to this Agreement shall be in writing, and shall be delivered by personal service, courier, facsimile transmission or by United States first class, registered or certified mail, addressed to the following addresses:

(i) If to the Company, to:

Equity Marketing, Inc.
131 S. Rodeo Drive, Suite 300
Beverly Hills, California 90212-2428
Attn: Vice President, Business Affairs

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(ii) If to Employee, to:

Al Ovadia
24346 Bridle Trail Road
Hidden Hills, California 91302

Any Notice, other than a Notice sent by registered or certified mail, shall be effective when received; a Notice sent by registered or certified mail, postage prepaid return receipt requested, shall be effective on the earlier of when received or the third day following deposit in the United States mails (or on the seventh day if sent to or from an address outside the United States). Any party may from time to time change its address for further Notices hereunder by giving notice to the other party in the manner prescribed in this Section.

(b) Entire Agreement. This Agreement contains the sole and entire agreement and understanding of the parties with respect to the entire subject matter of this Agreement, and any and all prior discussions, negotiations, commitments and understandings, whether oral or otherwise, including that certain letter dated July 24, 1996 between the Company and Employee, related to the subject matter of this Agreement are hereby merged herein. No representations, oral or otherwise, express or implied, other than those contained in this Agreement have been relied upon by any party to this Agreement. Notwithstanding the foregoing, Employee acknowledges that the Company has relied on his resume and other documents which may have been provided by Employee, and oral statements regarding Employee's employment history, education and experience, in determining to enter into the Agreement, and material misrepresentations (or omissions) in connection with such documents may constitute the basis of termination For Cause, as contemplated by the definition of For Cause.

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(c) Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

(d) Governing Law. This Agreement has been made and entered into in the State of California and shall be construed in accordance with the laws of the State of California.

(e) Captions. The various captions of this Agreement are for

reference only and shall not be considered or referred to in resolving questions of interpretation of this Agreement.

(f) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

(g) Business Day. If the last day permissible for delivery of any notice under any provision of this Agreement, or for the performance of any obligation under this Agreement, shall be other than a business day, such last day for such notice or performance shall be extended to the next following business day (provided, however, under no circumstances shall this provision be construed to extend the date of termination of this Agreement).

(h) Attorneys' Fees. If any action, proceeding or arbitration is brought to enforce or interpret any provision of this Agreement, the Prevailing Party shall be entitled to recover as an element of its costs, and not its damages, its reasonable attorneys' fees, costs and expenses. The "PREVAILING PARTY" is the party who would have been entitled to recover its costs under the California Code of Civil Procedure had the action been maintained in the Superior Court of

California regardless of whether there is final judgment. A party not entitled to recover its costs may not recover attorneys' fees. No sum for attorneys' fees shall be counted in calculating the amount of a judgment for purposes of determining whether a party is entitled to recover its costs or attorneys' fees.

(i) Advice from Independent Counsel. The parties hereto understand that this Agreement is legally binding and may affect such party's rights. Each party represents to the other that it has received legal advice from counsel of its choice regarding the meaning and legal significance of this Agreement to which it is a party and that it is satisfied with its legal counsel and the advice received from it.

(j) Interpretation. Should any provision of this Agreement require interpretation, it is agreed that any court or arbitrator interpreting or construing the same shall not apply a presumption that the terms hereof shall be more strictly construed against any Person by reason of the rule of construction that a document is to be construed more strictly against the Person who itself or through its agent prepared the same, it being agreed that all Parties have participated in the preparation of this Agreement.

(k) Waiver of Jury Trial. IF NOTWITHSTANDING THE AGREEMENT THAT

ALL DISPUTES BE SUBMITTED TO BINDING ARBITRATION, A DISPUTE IS SUBMITTED TO A COURT, EACH PARTY HERETO WAIVES THE RIGHT TO A TRIAL BY JURY IN ANY DISPUTE IN CONNECTION WITH OR RELATING TO THIS AGREEMENT, ANY RELATED AGREEMENT OR ANY MATTERS DESCRIBED OR CONTEMPLATED HEREIN OR THEREIN, AND AGREE TO TAKE ANY AND ALL ACTION NECESSARY OR APPROPRIATE TO EFFECT SUCH WAIVER. IN THE EVENT OF LITIGATION, THIS AGREEMENT MAY BE FILED AS WRITTEN CONSENT TO A TRIAL BY THE COURT.

Company:

EQUITY MARKETING, INC.

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By: _____

Its: _____

EMPLOYEE:

Al Ovadia

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EXHIBIT A

INDIVIDUAL PERFORMANCE GOALS, BUSINESS UNIT PERFORMANCE GOALS AND
COMPANY PERFORMANCE GOALS
FOR 1996

I. Individual Performance Goals

A.	Target Amount:	\$30,000
B.	Description:	

II. Business Unit Performance Goals

A.	Target Amount:	\$30,000
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B. Description:

III. Company Performance Goals

A. Target Amount: \$15,000

B. Description:

EMPLOYMENT AGREEMENT

AGREEMENT made as of September 18, 1996, between EQUITY MARKETING, INC., a New York corporation with an office at 131 South Rodeo Drive, Beverly Hills, CA 90212 (the "COMPANY"), and Christopher Reynolds, an individual residing at 122 Morehouse Road, Easton, Connecticut 06612 (the "EXECUTIVE").

W I T N E S S E T H :

WHEREAS, the Company desires that the Executive be employed to serve in a senior executive capacity with the Company, and the Executive desires to be so employed by the Company, upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations and covenants contained in this Agreement, the parties agree as follows:

1. EMPLOYMENT.

The Company hereby employs the Executive and the Executive hereby accepts such employment, subject to the terms and conditions set forth in this Agreement, as a Vice President.

2. TERM.

The term of employment under this Agreement shall begin as of the date hereof (the "EMPLOYMENT DATE") and shall continue through and including December 31, 1999, subject to prior termination in accordance with the terms of this Agreement. Thereafter, this Agreement may be extended for such period or periods as shall be mutually agreed in writing by the Executive and the Company.

3. DUTIES.

(a) The Executive shall perform the duties and functions

normally associated with the office of Vice President of a corporation and shall report to the Company's Vice President, Equity Promotions.

(b) The Executive agrees to devote all his or her working time, attention and energies to the performance of the business of the Company and of any of its affiliates by which he or she may be employed; and the Executive shall not,

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directly or indirectly, alone or as a member of any partnership or other organization, or as an officer, director or employee of any other corporation, partnership or other organization, be actively engaged in or concerned with any other duties or pursuits which materially interfere with the performance of his or her duties under this Agreement, or which, even if non-interfering, may be contrary to the best interests of the Company, except those duties or pursuits specifically authorized by the Chairman or the President; provided, however, that the Executive may continue to provide consulting services to and/or serve as a director of the Ocean Depot tropical fish project so long as such services do not interfere with the performance of the Executive's duties under this Agreement.

(c) The Executive acknowledges that he or she will be required to relocate to the Los Angeles area, and hereby agrees to do so. The Company will pay the Executive's reasonable moving expenses in connection with such relocation.

4. COMPENSATION.

As compensation for the employment services to be rendered by the Executive under this Agreement, including any services as an officer or director of the Company and any of its affiliates, the Company agrees to pay, or cause to be paid, to the Executive, and the Executive agrees to accept, annualized compensation of \$125,000 for the period from the date hereof through December 31, 1996 and \$125,000 thereafter, or such higher amount as the Board of Directors may determine, payable in equal installments in accordance with Company practice. In addition, the Executive shall receive an annualized bonus of \$25,000 for the period from the Employment date through December 31, 1996 and a bonus of \$25,000 following each subsequent full year of employment hereunder, paid in accordance with the annual bonus timetable for other senior officers of the Company.

5. EXPENSES.

The Company shall pay or reimburse the Executive, subject to

prior approval and upon presentment of such vouchers, receipts and other supporting information as the Company may require, for all reasonable business and travel expenses (other than those related to the Executive's automobile, which shall be limited to the automobile allowance set forth below) which may be incurred or paid by the Executive in connection with the employment of the Executive by the Company in accordance with the Company's standard policies then in effect. In addition, the Company shall provide an automobile allowance in accordance with the policy for other Vice Presidents of the Company. The Executive shall comply with such restrictions and shall keep such records as the Company may require of its executives generally to facilitate compliance with the requirements of the Internal Revenue Code of 1986, as amended from time to time, and regulations promulgated thereunder.

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6. INSURANCE AND OTHER BENEFITS.

The Executive shall be entitled to three weeks annual vacation and to participate in and receive any other benefits provided by the Company to other executive employees generally (including any personal and sick days, 401(k), health insurance, dental coverage, life insurance and short and long-term disability insurance plans in accordance with the terms of such plans), all as determined from time to time by the Board of Directors of the Company or appropriate committee thereof.

7. STOCK OPTIONS.

In accordance with the resolution of the Company's Board of Directors, the Company and the Executive will enter into a Stock Option Agreement dated as of the date of this Agreement providing for ten year stock options to purchase 50,000 shares of the Company's Common Stock, at the fair market value thereof on the date of this Agreement, with 20% of the options vesting on each anniversary of the grant date, subject to the terms and conditions of the Company's standard stock option agreement; provided, however, that all such options shall become fully vested if the Executive is employed by the Company as of December 31, 1999 and Company determines not to renew this Agreement after December 31, 1999. In addition, the Executive may receive additional options from time to time at the discretion of the Board of Directors.

8. TERMINATION OF EMPLOYMENT; EFFECT OF TERMINATION.

(a) The Executive's employment may be terminated by the Company in its sole discretion at any time, with or without cause, upon written

notice to the Executive.

(b) If the Executive shall die during the term of his or her employment by the Company, this Agreement shall terminate immediately. In such event, the estate of the Executive shall thereupon be entitled to receive such portion of the Executive's annual salary as have been earned or accrued and remain unpaid through the date of his or her death.

(c) Notwithstanding any provision to the contrary contained herein, in the event that the Executive's employment is terminated by the Company at any time for any reason other than Justifiable Cause (as defined in subsection (e) below), Disability (as defined in subsection (d) below) or death, the Company shall pay the Executive's salary (payable in such amount and in such manner as set forth in Section 4 of this Agreement), the bonus set forth in Section 4 and health insurance (until such time as the Executive obtains new employment) for the remainder of the stated term of this Agreement, which payments shall be in lieu of any and all other payments due and owing to the Executive under the terms of this Agreement. The Executive shall

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not be required to seek other employment or to otherwise mitigate the effects of such termination, and such salary payments shall not be reduced by any income received from other sources.

(d) For the purposes of this Agreement, the term "DISABILITY" shall mean the inability of the Executive, due to illness, accident or any other physical or mental incapacity, to perform his or her duties in a normal manner for a period of two consecutive months or for a total of four months (whether or not consecutive) in any twelve month period during the term of this Agreement.

(e) For the purposes of this Agreement, the term "JUSTIFIABLE CAUSE" shall mean: (i) the willful or material breach by the Executive of any of the terms of this Agreement; (ii) the Executive's conviction of (or plea of guilty or nolo contendere with respect to) any theft, fraud or crime involving moral turpitude or crime or offense involving money or other property of the Company or any affiliate of the Company or which constitutes a felony in the jurisdiction involved; (iii) the engaging by the Executive in willful misconduct which is injurious to the Company or its affiliates, monetarily or otherwise, including without limitation any act or acts that in the reasonable opinion of the Company's Chairman or President, give rise to a material risk of liability for discrimination or sexual or other forms of harassment or other similar liabilities to subordinate employees; (iv) insubordination of a material nature; (v) gross negligence by the Executive with respect to his or her services to the Company which has continued for 15

days after notice to the Executive; (vi) continued and repeated substantive violations of reasonable, specific written directions of the Executive's supervisor or the Company's Chairman or President, which directions are consistent with this Agreement and the Executive's position as an executive officer or continued and repeated failure to perform duties assigned by or pursuant to this Agreement or in accordance with the policies of the Company and which have continued for 15 days after notice to the Executive; (vii) any unauthorized disclosure by the Executive of any Confidential Information (as defined in this Agreement); (viii) any material breach by the Executive of his or her fiduciary duty to the Company, including any misappropriation of a corporate opportunity; or (ix) excessive absenteeism, or alcohol or drug abuse which has continued for 15 days after notice to the Executive.

9. REPRESENTATIONS AND AGREEMENTS OF THE EXECUTIVE.

(a) The Executive represents and warrants that he or she is free to enter into this Agreement and to perform the duties required under this Agreement, and that there are no employment contracts or understandings, restrictive covenants or other restrictions, whether written or oral, preventing the performance of his or her duties under this Agreement.

(b) The Executive agrees to submit on reasonable notice to a medical examination (at the Company's expense) and to cooperate and supply such other information and documents as are in the Executive's possession as may reasonably be

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required by any insurance company in connection with the Company's obtaining any type of insurance or fringe benefit as the Company shall determine from time to time to obtain for the Executive. The Executive shall be given a complete report of each such examination.

10. CONFIDENTIALITY

(a) The Executive acknowledges that, during the course of his or her employment by the Company, the Executive will have access to confidential or proprietary information, documents and other materials relating to the Company, its affiliates and their respective business which are not generally known to persons outside the Company (whether conceived or developed by the Executive or others) and confidential or proprietary information, documents and other materials entrusted to the Company by third parties, including, without limitation, any "know-how," trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational

methods, marketing plans or strategies, product development techniques or plans, business plans and acquisition plans of the Company or its affiliates that are valuable and not generally known to the competitors of the Company, whether or not in written or tangible form, and including all memoranda, notes, plans, reports, records, documents and other evidence thereof ("CONFIDENTIAL INFORMATION"). Neither the Executive nor any entity affiliated with the Executive will, directly or indirectly, during the term of the Executive's employment by the Company and/or thereafter, disclose to anyone, or use or otherwise exploit for the Executive's own benefit or for the benefit of anyone other than the Company or its affiliates, any Confidential Information. Confidential Information shall not include information which (i) the Executive can show was not acquired or obtained from the Company or any of its affiliates (whether received before or after the date of this Agreement), or (ii) is or becomes generally available to the industry other than as a result of a disclosure, directly or indirectly by the Executive.

(b) The Executive agrees that all Confidential Information conceived, discovered or made by the Executive during the term of employment belongs to the Company. The Executive will promptly disclose such Confidential Information to the Company and perform all actions reasonably requested by the Company to establish and confirm such ownership.

(c) All Confidential Information relating to the Company and its affiliates shall be the exclusive property of the Company and its affiliates, and the Executive shall use all reasonable efforts to prevent any publication or disclosure thereof. Upon termination of the Executive's employment with the Company, all documents, records, reports, writings and other similar documents containing Confidential Information, including copies thereof, then in the Executive's possession or control shall be returned to and left with the Company.

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11. COPYRIGHTS, PATENTS, TRADEMARKS.

(a) All right, title and interest, of every kind whatsoever, in the United States and throughout the world, in (i) any work, including the copyright thereof (for the full terms and extensions thereof in every jurisdiction), created by the Executive at any time during the term of this Agreement and all material embodiments of the work subject to such rights; and (ii) all inventions, ideas, discoveries, designs and improvements, patentable or not, made or conceived by the Executive at any time during the term of this Agreement, shall be and remain the sole property of the Company without payment of any further consideration to the Executive or any other person, and each such work shall, for purposes of United States copyright law, be deemed created by the Executive pursuant to his or her duties under this

Agreement and within the scope of his or her employment and shall be deemed a work made for hire; and the Executive agrees to assign, at the Company's expense, and the Executive does hereby assign, all of his or her right, title and interest in and to all such works, copyrights, materials, inventions, ideas, discoveries, designs and improvements, patentable or not, and any copyrights, letters patent, trademarks, trade secrets, and similar rights, and the applications therefor, which may exist or be issued with respect thereto. For the purposes of this Section 11, "WORKS" shall include all materials created during the term of this Agreement, whether or not ever used by or submitted to the Company, including, without limitation, any work which may be the subject matter of a copyright under United States copyright law. In addition to its other rights, the Company may copyright any such work in its name in the United States in accordance with the requirements of the United States copyright law and the Universal Copyright Convention and any other convention or treaty to which the United States is or may become a party.

(b) Whenever the Company shall so request, whether during or after the term of this Agreement, the Executive shall execute, acknowledge and deliver all applications, assignments or other instruments; make or cause to be made all rightful oaths; testify in all legal proceedings; communicate all known facts which relate to such works, copyrights, inventions, ideas, discoveries, designs and improvements; perform all lawful acts and otherwise render all such assistance as the Company may deem necessary to apply for, obtain, register, enforce and maintain any copyrights, letters patent and trademark registrations of the United States or any foreign jurisdiction or under the Universal Copyright Convention (or any other convention or treaty to which the United States is or may become a party), or otherwise to protect the Company's interests therein, including any which the Company shall deem necessary in connection with any proceeding or litigation involving the same. The Company shall reimburse the Executive for all reasonable out-of-pocket costs incurred by the Executive in testifying at the Company's request or in rendering any other assistance requested by the Company pursuant to this Section 11. All registration and filing fees and similar expenses shall be paid by the Company.

(c) The Company agrees and acknowledges that the Executive has developed prior to the date hereof, and shall retain the rights to, "The World of Fizz

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Cola As told by Kippy the Wonder Dog" (a set of stories intended to be developed for mass media publication); provided however, that the Executive shall not exploit or permit any exploitation of such concepts during the term of this Agreement (or any extension hereof) without the prior written consent of the Company, which shall not be unreasonably withheld or delayed.

12. RESOLUTION OF DISPUTES.

(a) Except as provided in Section 13 below, any controversy or claim between or among the parties relating to the Executive's employment with the Company, including but not limited to those arising from an alleged tort, shall at the request of either party be determined by arbitration. The arbitration shall be conducted in Los Angeles, California, in accordance with the United States Arbitration Act (Title 9, U.S. Code), notwithstanding any choice of law provision in this Agreement, and under the Commercial Rules of the American Arbitration Association ("AAA"). The parties shall have the right to review and approve a panel of prospective arbitrators supplied by AAA, but the arbitration shall be conducted by a single arbitrator selected from the approved panel by AAA or by stipulation of the parties. The arbitrator(s) shall give effect to statutes of limitation in determining any claim. Any controversy concerning whether an issue is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall be entitled to order specific performance of the obligations imposed by this Agreement. Judgment upon the arbitration award may be entered in any court having jurisdiction.

(b) All decisions of the arbitrator(s) shall be final, conclusive and binding on all parties and shall not be subject to judicial review. The arbitrator(s) shall divide all costs (other than fees of counsel) incurred in conducting the arbitration proceeding in the final award in accordance with what they deem just and equitable under the circumstances.

13. RIGHT TO INJUNCTION.

In the event of a breach of Section 10 or 11 of this Agreement by the Executive, the Company shall be entitled to injunctive relief or any other legal or equitable remedies. The Executive recognizes that the services to be rendered by him or her under this Agreement are of a special, unique, unusual, extraordinary and intellectual character involving skill of the highest order and giving them peculiar value the loss of which cannot be adequately compensated for in damages. The remedies provided in this Agreement shall be deemed cumulative and the exercise of one shall not preclude the exercise of any other remedy at law or in equity for the same event or any other event. Section 12(a) above does not prohibit a party from seeking and obtaining injunctive relief pending the outcome of arbitration. A party bringing an action for injunctive relief shall not be deemed to have waived its right to demand arbitration of all disputes.

14. ASSIGNMENT.

The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company.

15. AMENDMENT OR ALTERATION.

No amendment or alteration of the terms of this Agreement shall be valid unless made in writing and signed by both of the parties to this Agreement.

16. ATTORNEY'S FEES.

If any action, proceeding or arbitration is brought to enforce or interpret any provision of this Agreement, the Prevailing Party shall be entitled to recover as an element of its costs, and not its damages, its reasonable attorneys' fees, costs and expenses. The "PREVAILING PARTY" is the party who would have been entitled to recover its costs under the California Code of Civil Procedure had the action been maintained in the Superior Court of California, regardless of whether there is a final judgment. A party not entitled to recover its costs may not recover attorneys' fees. No sum for attorneys' fees shall be counted in calculating the amount of a judgment for purposes of determining whether a party is entitled to recover its costs or attorneys' fees.

17. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of California applicable to agreements made and to be performed therein.

18. SEVERABILITY.

The holding of any provision of this Agreement to be invalid or unenforceable by a court of competent jurisdiction shall not affect any other provision of this Agreement, which shall remain in full force and effect.

19. NOTICES.

Any notices required or permitted to be given under this Agreement shall be sufficient if in writing, and if delivered by hand, or sent by certified mail, return receipt requested, to the addresses set forth above or such other address as either party may from time to time designate in writing to the other, and shall be deemed given as of the date of the delivery or mailing.

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20. WAIVER OR BREACH.

It is agreed that a waiver by either party of a breach of any provision of this Agreement shall not operate, or be construed, as a waiver of any subsequent breach by that same party.

21. ENTIRE AGREEMENT AND BINDING EFFECT.

This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and shall be binding upon and inure to the benefit of the parties to this Agreement and their respective legal representatives, heirs, distributors, successors and assigns. Notwithstanding the foregoing, no prior agreements between the Executive and the Company relating to the confidentiality of information, trade secrets and patents shall be affected by this Agreement.

22. SURVIVAL.

The termination of the Executive's employment hereunder shall not affect the enforceability of Sections 10, 11 and 13 of this Agreement.

23. FURTHER ASSURANCES.

The parties agree to execute and deliver all such further documents, agreements and instruments and take such other and further action as may be necessary or appropriate to carry out the purposes and intent of this Agreement.

24. HEADINGS.

This Section headings appearing in this Agreement are for the purposes of easy reference and shall not be considered a part of this Agreement or in any way modify, demand or affect its provisions.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

EQUITY MARKETING, INC.

By: /s/ STEPHEN P. ROBECK

/s/ CHRISTOPHER REYNOLDS

Christopher Reynolds

EMPLOYMENT AGREEMENT

AGREEMENT made as of September 18, 1996, between EQUITY MARKETING, INC., a New York corporation with an office at 131 South Rodeo Drive, Beverly Hills, CA 90212 (the "COMPANY"), and Merryl Lambert Reynolds, an individual residing at 122 Morehouse Road, Easton, Connecticut 06612 (the "EXECUTIVE").

W I T N E S S E T H :

WHEREAS, the Company desires that the Executive be employed to serve in a senior executive capacity with the Company, and the Executive desires to be so employed by the Company, upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations and covenants contained in this Agreement, the parties agree as follows:

1. EMPLOYMENT.

The Company hereby employs the Executive and the Executive hereby accepts such employment, subject to the terms and conditions set forth in this Agreement, as a Vice President.

2. TERM.

The term of employment under this Agreement shall begin as of the date hereof (the "EMPLOYMENT DATE") and shall continue through and including December 31, 1999, subject to prior termination in accordance with the terms of this Agreement. Thereafter, this Agreement may be extended for such period or periods as shall be mutually agreed in writing by the Executive and the Company.

3. DUTIES.

(a) The Executive shall perform the duties and functions

normally associated with the office of Vice President of a corporation and shall report to the Company's Senior Vice President, Equity Toys.

(b) The Executive agrees to devote all his or her working time, attention and energies to the performance of the business of the Company and of any of its affiliates by which he or she may be employed; and the Executive shall not,

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directly or indirectly, alone or as a member of any partnership or other organization, or as an officer, director or employee of any other corporation, partnership or other organization, be actively engaged in or concerned with any other duties or pursuits which materially interfere with the performance of his or her duties under this Agreement, or which, even if non-interfering, may be contrary to the best interests of the Company, except those duties or pursuits specifically authorized by the Chairman or the President.

(c) The Executive acknowledges that he or she will be required to relocate to the Los Angeles area, and hereby agrees to do so. The Company will pay the Executive's reasonable moving expenses in connection with such relocation.

4. COMPENSATION.

As compensation for the employment services to be rendered by the Executive under this Agreement, including any services as an officer or director of the Company and any of its affiliates, the Company agrees to pay, or cause to be paid, to the Executive, and the Executive agrees to accept, annualized compensation of \$125,000 for the period from the date hereof through December 31, 1996 and \$125,000 thereafter, or such higher amount as the Board of Directors may determine, payable in equal installments in accordance with Company practice. In addition, the Executive shall receive an annualized bonus of \$25,000 for the period from the Employment date through December 31, 1996 and a bonus of \$25,000 following each subsequent full year of employment hereunder, paid in accordance with the annual bonus timetable for other senior officers of the Company.

5. EXPENSES.

The Company shall pay or reimburse the Executive, subject to prior approval and upon presentment of such vouchers, receipts and other supporting information as the Company may require, for all reasonable business and travel expenses (other than those related to the Executive's automobile, which shall be limited to the automobile allowance set forth below) which may

be incurred or paid by the Executive in connection with the employment of the Executive by the Company in accordance with the Company's standard policies then in effect. In addition, the Company shall provide an automobile allowance in accordance with the policy for other Vice Presidents of the Company. The Executive shall comply with such restrictions and shall keep such records as the Company may require of its executives generally to facilitate compliance with the requirements of the Internal Revenue Code of 1986, as amended from time to time, and regulations promulgated thereunder.

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6. INSURANCE AND OTHER BENEFITS.

The Executive shall be entitled to three weeks annual vacation and to participate in and receive any other benefits provided by the Company to other executive employees generally (including any personal and sick days, 401(k), health insurance, dental coverage, life insurance and short and long-term disability insurance plans in accordance with the terms of such plans), all as determined from time to time by the Board of Directors of the Company or appropriate committee thereof.

7. STOCK OPTIONS.

In accordance with the resolution of the Company's Board of Directors, the Company and the Executive will enter into a Stock Option Agreement dated as of the date of this Agreement providing for ten year stock options to purchase 50,000 shares of the Company's Common Stock, at the fair market value thereof on the date of this Agreement, with 20% of the options vesting on each anniversary of the grant date, subject to the terms and conditions of the Company's standard stock option agreement; provided, however, that all such options shall become fully vested if the Executive is employed by the Company as of December 31, 1999 and Company determines not to renew this Agreement after December 31, 1999. In addition, the Executive may receive additional options from time to time at the discretion of the Board of Directors.

8. TERMINATION OF EMPLOYMENT; EFFECT OF TERMINATION.

(a) The Executive's employment may be terminated by the Company in its sole discretion at any time, with or without cause, upon written notice to the Executive.

(b) If the Executive shall die during the term of his or her employment by the Company, this Agreement shall terminate immediately. In

such event, the estate of the Executive shall thereupon be entitled to receive such portion of the Executive's annual salary as have been earned or accrued and remain unpaid through the date of his or her death.

(c) Notwithstanding any provision to the contrary contained herein, in the event that the Executive's employment is terminated by the Company at any time for any reason other than Justifiable Cause (as defined in subsection (e) below), Disability (as defined in subsection (d) below) or death, the Company shall pay the Executive's salary (payable in such amount and in such manner as set forth in Section 4 of this Agreement), the bonus set forth in Section 4 and health insurance (until such time as the Executive obtains new employment) for the remainder of the stated term of this Agreement, which payments shall be in lieu of any and all other payments due and owing to the Executive under the terms of this Agreement. The Executive shall

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not be required to seek other employment or to otherwise mitigate the effects of such termination, and such salary payments shall not be reduced by any income received from other sources.

(d) For the purposes of this Agreement, the term "DISABILITY" shall mean the inability of the Executive, due to illness, accident or any other physical or mental incapacity, to perform his or her duties in a normal manner for a period of two consecutive months or for a total of four months (whether or not consecutive) in any twelve month period during the term of this Agreement.

(e) For the purposes of this Agreement, the term "JUSTIFIABLE CAUSE" shall mean: (i) the willful or material breach by the Executive of any of the terms of this Agreement; (ii) the Executive's conviction of (or plea of guilty or nolo contendere with respect to) any theft, fraud or crime involving moral turpitude or crime or offense involving money or other property of the Company or any affiliate of the Company or which constitutes a felony in the jurisdiction involved; (iii) the engaging by the Executive in willful misconduct which is injurious to the Company or its affiliates, monetarily or otherwise, including without limitation any act or acts that in the reasonable opinion of the Company's Chairman or President, give rise to a material risk of liability for discrimination or sexual or other forms of harassment or other similar liabilities to subordinate employees; (iv) insubordination of a material nature; (v) gross negligence by the Executive with respect to his or her services to the Company which has continued for 15 days after notice to the Executive; (vi) continued and repeated substantive violations of reasonable, specific written directions of the Executive's supervisor or the Company's Chairman or President, which directions are consistent with this Agreement and the Executive's position as an executive

officer or continued and repeated failure to perform duties assigned by or pursuant to this Agreement or in accordance with the policies of the Company and which have continued for 15 days after notice to the Executive; (vii) any unauthorized disclosure by the Executive of any Confidential Information (as defined in this Agreement); (viii) any material breach by the Executive of his or her fiduciary duty to the Company, including any misappropriation of a corporate opportunity; or (ix) excessive absenteeism, or alcohol or drug abuse which has continued for 15 days after notice to the Executive.

9. REPRESENTATIONS AND AGREEMENTS OF THE EXECUTIVE.

(a) The Executive represents and warrants that he or she is free to enter into this Agreement and to perform the duties required under this Agreement, and that there are no employment contracts or understandings, restrictive covenants or other restrictions, whether written or oral, preventing the performance of his or her duties under this Agreement.

(b) The Executive agrees to submit on reasonable notice to a medical examination (at the Company's expense) and to cooperate and supply such other information and documents as are in the Executive's possession as may reasonably be

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required by any insurance company in connection with the Company's obtaining any type of insurance or fringe benefit as the Company shall determine from time to time to obtain for the Executive. The Executive shall be given a complete report of each such examination.

10. CONFIDENTIALITY

(a) The Executive acknowledges that, during the course of his or her employment by the Company, the Executive will have access to confidential or proprietary information, documents and other materials relating to the Company, its affiliates and their respective business which are not generally known to persons outside the Company (whether conceived or developed by the Executive or others) and confidential or proprietary information, documents and other materials entrusted to the Company by third parties, including, without limitation, any "know-how," trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business plans and acquisition plans of the Company or its affiliates that are valuable and not generally known to the competitors of the Company, whether or not in written or tangible form, and including all memoranda, notes,

plans, reports, records, documents and other evidence thereof ("CONFIDENTIAL INFORMATION"). Neither the Executive nor any entity affiliated with the Executive will, directly or indirectly, during the term of the Executive's employment by the Company and/or thereafter, disclose to anyone, or use or otherwise exploit for the Executive's own benefit or for the benefit of anyone other than the Company or its affiliates, any Confidential Information. Confidential Information shall not include information which (i) the Executive can show was not acquired or obtained from the Company or any of its affiliates (whether received before or after the date of this Agreement), or (ii) is or becomes generally available to the industry other than as a result of a disclosure, directly or indirectly by the Executive.

(b) The Executive agrees that all Confidential Information conceived, discovered or made by the Executive during the term of employment belongs to the Company. The Executive will promptly disclose such Confidential Information to the Company and perform all actions reasonably requested by the Company to establish and confirm such ownership.

(c) All Confidential Information relating to the Company and its affiliates shall be the exclusive property of the Company and its affiliates, and the Executive shall use all reasonable efforts to prevent any publication or disclosure thereof. Upon termination of the Executive's employment with the Company, all documents, records, reports, writings and other similar documents containing Confidential Information, including copies thereof, then in the Executive's possession or control shall be returned to and left with the Company.

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11. COPYRIGHTS, PATENTS, TRADEMARKS.

(a) All right, title and interest, of every kind whatsoever, in the United States and throughout the world, in (i) any work, including the copyright thereof (for the full terms and extensions thereof in every jurisdiction), created by the Executive at any time during the term of this Agreement and all material embodiments of the work subject to such rights; and (ii) all inventions, ideas, discoveries, designs and improvements, patentable or not, made or conceived by the Executive at any time during the term of this Agreement, shall be and remain the sole property of the Company without payment of any further consideration to the Executive or any other person, and each such work shall, for purposes of United States copyright law, be deemed created by the Executive pursuant to his or her duties under this Agreement and within the scope of his or her employment and shall be deemed a work made for hire; and the Executive agrees to assign, at the Company's expense, and the Executive does hereby assign, all of his or her right, title and interest in and to all such works, copyrights, materials, inventions,

ideas, discoveries, designs and improvements, patentable or not, and any copyrights, letters patent, trademarks, trade secrets, and similar rights, and the applications therefor, which may exist or be issued with respect thereto. For the purposes of this Section 11, "WORKS" shall include all materials created during the term of this Agreement, whether or not ever used by or submitted to the Company, including, without limitation, any work which may be the subject matter of a copyright under United States copyright law. In addition to its other rights, the Company may copyright any such work in its name in the United States in accordance with the requirements of the United States copyright law and the Universal Copyright Convention and any other convention or treaty to which the United States is or may become a party.

(b) Whenever the Company shall so request, whether during or after the term of this Agreement, the Executive shall execute, acknowledge and deliver all applications, assignments or other instruments; make or cause to be made all rightful oaths; testify in all legal proceedings; communicate all known facts which relate to such works, copyrights, inventions, ideas, discoveries, designs and improvements; perform all lawful acts and otherwise render all such assistance as the Company may deem necessary to apply for, obtain, register, enforce and maintain any copyrights, letters patent and trademark registrations of the United States or any foreign jurisdiction or under the Universal Copyright Convention (or any other convention or treaty to which the United States is or may become a party), or otherwise to protect the Company's interests therein, including any which the Company shall deem necessary in connection with any proceeding or litigation involving the same. The Company shall reimburse the Executive for all reasonable out-of-pocket costs incurred by the Executive in testifying at the Company's request or in rendering any other assistance requested by the Company pursuant to this Section 11. All registration and filing fees and similar expenses shall be paid by the Company.

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12. RESOLUTION OF DISPUTES.

(a) Except as provided in Section 13 below, any controversy or claim between or among the parties relating to the Executive's employment with the Company, including but not limited to those arising from an alleged tort, shall at the request of either party be determined by arbitration. The arbitration shall be conducted in Los Angeles, California, in accordance with the United States Arbitration Act (Title 9, U.S. Code), notwithstanding any choice of law provision in this Agreement, and under the Commercial Rules of the American Arbitration Association ("AAA"). The parties shall have the right to review and approve a panel of prospective arbitrators supplied by AAA, but the arbitration shall be conducted by a single arbitrator selected from the approved panel by AAA or by stipulation of the parties. The

arbitrator(s) shall give effect to statutes of limitation in determining any claim. Any controversy concerning whether an issue is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall be entitled to order specific performance of the obligations imposed by this Agreement. Judgment upon the arbitration award may be entered in any court having jurisdiction.

(b) All decisions of the arbitrator(s) shall be final, conclusive and binding on all parties and shall not be subject to judicial review. The arbitrator(s) shall divide all costs (other than fees of counsel) incurred in conducting the arbitration proceeding in the final award in accordance with what they deem just and equitable under the circumstances.

13. RIGHT TO INJUNCTION.

In the event of a breach of Section 10 or 11 of this Agreement by the Executive, the Company shall be entitled to injunctive relief or any other legal or equitable remedies. The Executive recognizes that the services to be rendered by him or her under this Agreement are of a special, unique, unusual, extraordinary and intellectual character involving skill of the highest order and giving them peculiar value the loss of which cannot be adequately compensated for in damages. The remedies provided in this Agreement shall be deemed cumulative and the exercise of one shall not preclude the exercise of any other remedy at law or in equity for the same event or any other event. Section 12(a) above does not prohibit a party from seeking and obtaining injunctive relief pending the outcome of arbitration. A party bringing an action for injunctive relief shall not be deemed to have waived its right to demand arbitration of all disputes.

14. ASSIGNMENT.

The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company.

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15. AMENDMENT OR ALTERATION.

No amendment or alteration of the terms of this Agreement shall be valid unless made in writing and signed by both of the parties to this Agreement.

16. ATTORNEY'S FEES.

If any action, proceeding or arbitration is brought to enforce or interpret any provision of this Agreement, the Prevailing Party shall be entitled to recover as an element of its costs, and not its damages, its reasonable attorneys' fees, costs and expenses. The "PREVAILING PARTY" is the party who would have been entitled to recover its costs under the California Code of Civil Procedure had the action been maintained in the Superior Court of California, regardless of whether there is a final judgment. A party not entitled to recover its costs may not recover attorneys' fees. No sum for attorneys' fees shall be counted in calculating the amount of a judgment for purposes of determining whether a party is entitled to recover its costs or attorneys' fees.

17. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of California applicable to agreements made and to be performed therein.

18. SEVERABILITY.

The holding of any provision of this Agreement to be invalid or unenforceable by a court of competent jurisdiction shall not affect any other provision of this Agreement, which shall remain in full force and effect.

19. NOTICES.

Any notices required or permitted to be given under this Agreement shall be sufficient if in writing, and if delivered by hand, or sent by certified mail, return receipt requested, to the addresses set forth above or such other address as either party may from time to time designate in writing to the other, and shall be deemed given as of the date of the delivery or mailing.

20. WAIVER OR BREACH.

It is agreed that a waiver by either party of a breach of any provision of this Agreement shall not operate, or be construed, as a waiver of any subsequent breach by that same party.

21. ENTIRE AGREEMENT AND BINDING EFFECT.

This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and shall be binding upon and inure to the benefit of the parties to this Agreement and their respective legal representatives, heirs, distributors, successors and assigns. Notwithstanding the foregoing, no prior agreements between the Executive and the Company relating to the confidentiality of information, trade secrets and patents shall be affected by this Agreement.

22. SURVIVAL.

The termination of the Executive's employment hereunder shall not affect the enforceability of Sections 10, 11 and 13 of this Agreement.

23. FURTHER ASSURANCES.

The parties agree to execute and deliver all such further documents, agreements and instruments and take such other and further action as may be necessary or appropriate to carry out the purposes and intent of this Agreement.

24. HEADINGS.

This Section headings appearing in this Agreement are for the purposes of easy reference and shall not be considered a part of this Agreement or in any way modify, demand or affect its provisions.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

EQUITY MARKETING, INC.

By: /s/ STEPHEN P. ROBECK

/s/ MERRYL LAMBERT REYNOLDS

Merryl Lambert Reynolds

EMPLOYMENT AGREEMENT

AGREEMENT made as of September 18, 1996, between EQUITY MARKETING, INC., a New York corporation with an office at 131 South Rodeo Drive, Beverly Hills, CA 90212 (the "COMPANY"), and Ronda Drummond, an individual residing at 3104 Mossy Oak Lane, Bedford, Texas 76021 (the "EXECUTIVE").

W I T N E S S E T H :

WHEREAS, the Company desires that the Executive be employed to serve in a senior executive capacity with the Company, and the Executive desires to be so employed by the Company, upon the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and of the mutual promises, representations and covenants contained in this Agreement, the parties agree as follows:

1. EMPLOYMENT.

The Company hereby employs the Executive and the Executive hereby accepts such employment, subject to the terms and conditions set forth in this Agreement, as a Vice President.

2. TERM.

The term of employment under this Agreement shall begin as of the date hereof (the "EMPLOYMENT DATE") and shall continue through and including December 31, 1999, subject to prior termination in accordance with the terms of this Agreement. Thereafter, this Agreement may be extended for such period or periods as shall be mutually agreed in writing by the Executive and the Company.

3. DUTIES.

(a) The Executive shall perform the duties and functions normally associated with the office of Vice President of a corporation and

shall report to the Company's Vice President, Equity Promotions.

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(b) The Executive agrees to devote all his or her working time, attention and energies to the performance of the business of the Company and of any of its affiliates by which he or she may be employed; and the Executive shall not, directly or indirectly, alone or as a member of any partnership or other organization, or as an officer, director or employee of any other corporation, partnership or other organization, be actively engaged in or concerned with any other duties or pursuits which materially interfere with the performance of his or her duties under this Agreement, or which, even if non-interfering, may be contrary to the best interests of the Company, except those duties or pursuits specifically authorized by the Chairman or the President.

(c) The Executive acknowledges that he or she may be required to relocate to the Los Angeles area, and hereby agrees to do so. The Executive and the Company agree that the determination regarding such relocation (if any) shall be based upon the Company's evaluation (in consultation with the Executive) of the factors relating to current and prospective business activities for which the Executive is responsible. Such factors shall include attendance upon customers, management of the Charlotte office, and functions to be best performed at the Company's corporate office in Los Angeles. The Company will pay the Executive's reasonable moving expenses in connection with any such relocation.

4. COMPENSATION.

As compensation for the employment services to be rendered by the Executive under this Agreement, including any services as an officer or director of the Company and any of its affiliates, the Company agrees to pay, or cause to be paid, to the Executive, and the Executive agrees to accept, annualized compensation of \$75,000 for the period from the date hereof through December 31, 1996 and \$125,000 thereafter, or such higher amount as the Board of Directors may determine, payable in equal installments in accordance with Company practice. In addition, the Executive shall receive a bonus of \$25,000 following each full year of employment hereunder, paid in accordance with the annual bonus timetable for other senior officers of the Company.

5. EXPENSES.

The Company shall pay or reimburse the Executive, subject to prior approval and upon presentment of such vouchers, receipts and other supporting information as the Company may require, for all reasonable business and travel expenses (other than those related to the Executive's automobile, which shall be limited to the automobile allowance set forth below) which may be incurred or paid by the Executive in connection with the employment of the Executive by the Company in

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accordance with the Company's standard policies then in effect. In addition, the Company shall provide an automobile allowance in accordance with the policy for other Vice Presidents of the Company. The Executive shall comply with such restrictions and shall keep such records as the Company may require of its executives generally to facilitate compliance with the requirements of the Internal Revenue Code of 1986, as amended from time to time, and regulations promulgated thereunder.

6. INSURANCE AND OTHER BENEFITS.

The Executive shall be entitled to three weeks annual vacation and to participate in and receive any other benefits provided by the Company to other executive employees generally (including any personal and sick days, 401(k), health insurance, dental coverage, life insurance and short and long-term disability insurance plans in accordance with the terms of such plans), all as determined from time to time by the Board of Directors of the Company or appropriate committee thereof.

7. STOCK OPTIONS.

In accordance with the resolution of the Company's Board of Directors, the Company and the Executive will enter into a Stock Option Agreement dated as of the date of this Agreement providing for ten year stock options to purchase 25,000 shares of the Company's Common Stock, at the fair market value thereof on the date of this Agreement, with 20% of the options vesting on each anniversary of the grant date, subject to the terms and conditions of the Company's standard stock option agreement; provided, however, that all such options shall become fully vested if the Executive is employed by the Company as of December 31, 1999 and Company determines not to renew this Agreement after December 31, 1999. In addition, the Executive may receive additional options from time to time at the discretion of the Board of

8. TERMINATION OF EMPLOYMENT; EFFECT OF TERMINATION.

(a) The Executive's employment may be terminated by the Company in its sole discretion at any time, with or without cause, upon written notice to the Executive.

(b) If the Executive shall die during the term of his or her employment by the Company, this Agreement shall terminate immediately. In such event, the estate of the Executive shall thereupon be entitled to receive such portion of the Executive's

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annual salary as have been earned or accrued and remain unpaid through the date of his or her death.

(c) Notwithstanding any provision to the contrary contained herein, in the event that the Executive's employment is terminated by the Company at any time for any reason other than Justifiable Cause (as defined in subsection (e) below), Disability (as defined in subsection (d) below) or death, the Company shall pay the Executive's salary (payable in such amount and in such manner as set forth in Section 4 of this Agreement), the bonus set forth in Section 4, and health insurance (until such time as the Executive obtains new employment) for the remainder of the stated term of this Agreement, which payments shall be in lieu of any and all other payments due and owing to the Executive under the terms of this Agreement. The Executive shall not be required to seek other employment or to otherwise mitigate the effects of such termination, and such salary payments shall not be reduced by any income received from other sources.

(d) For the purposes of this Agreement, the term "DISABILITY" shall mean the inability of the Executive, due to illness, accident or any other physical or mental incapacity, to perform his or her duties in a normal manner for a period of two consecutive months or for a total of four months (whether or not consecutive) in any twelve month period during the term of this Agreement.

(e) For the purposes of this Agreement, the term "JUSTIFIABLE CAUSE" shall mean: (i) the willful or material breach by the Executive of any of the terms of this Agreement; (ii) the Executive's

conviction of (or plea of guilty or nolo contendere with respect to) any theft, fraud or crime involving moral turpitude or crime or offense involving money or other property of the Company or any affiliate of the Company or which constitutes a felony in the jurisdiction involved; (iii) the engaging by the Executive in willful misconduct which is injurious to the Company or its affiliates, monetarily or otherwise, including without limitation any act or acts that in the reasonable opinion of the Company's Chairman or President, give rise to a material risk of liability for discrimination or sexual or other forms of harassment or other similar liabilities to subordinate employees; (iv) insubordination of a material nature; (v) gross negligence by the Executive with respect to his or her services to the Company; (vi) continued and repeated substantive violations of specific, reasonable written directions of the Executive's supervisor or the Company's Chairman or President, which directions are consistent with this Agreement and the Executive's position as an executive officer or continued and repeated failure to perform duties assigned by or pursuant to this Agreement or to the policies of the Company; (vii) any unauthorized disclosure by the Executive of any Confidential Information (as defined in this Agreement); (viii) any material breach by the Executive of his or her fiduciary duty to the Company, including any misappropriation of a corporate opportunity; or (ix) excessive absenteeism, or alcohol or drug abuse.

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9. REPRESENTATIONS AND AGREEMENTS OF THE EXECUTIVE.

(a) The Executive represents and warrants that he or she is free to enter into this Agreement and to perform the duties required under this Agreement, and that there are no employment contracts or understandings, restrictive covenants or other restrictions, whether written or oral, preventing the performance of his or her duties under this Agreement.

(b) The Executive agrees to submit on reasonable notice to a medical examination (at the Company's expense) and to cooperate and supply such other information and documents as are in the Executive's possession as may reasonably be required by any insurance company in connection with the Company's obtaining any type of insurance or fringe benefit as the Company shall determine from time to time to obtain for the Executive. The Executive shall be given a complete report of each such examination.

10. CONFIDENTIALITY.

(a) The Executive acknowledges that, during the course of his or her employment by the Company, the Executive will have access to confidential or proprietary information, documents and other materials relating to the Company, its affiliates and their respective business which are not generally known to persons outside the Company (whether conceived or developed by the Executive or others) and confidential or proprietary information, documents and other materials entrusted to the Company by third parties, including, without limitation, any "know-how," trade secrets, customer lists, details of client or consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business plans and acquisition plans of the Company or its affiliates that are valuable and not generally known to the competitors of the Company, whether or not in written or tangible form, and including all memoranda, notes, plans, reports, records, documents and other evidence thereof ("CONFIDENTIAL INFORMATION"). Neither the Executive nor any entity affiliated with the Executive will, directly or indirectly, during the term of the Executive's employment by the Company and/or thereafter, disclose to anyone, or use or otherwise exploit for the Executive's own benefit or for the benefit of anyone other than the Company or its affiliates, any Confidential Information. Confidential Information shall not include information which (i) the Executive can show was not acquired or obtained from the Company or any of its affiliates (whether received before or after the date of this Agreement), or (ii) is or becomes generally available to the industry other than as a result of a disclosure, directly or indirectly by the Executive.

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(b) The Executive agrees that all Confidential Information conceived, discovered or made by the Executive during the term of employment belongs to the Company. The Executive will promptly disclose such Confidential Information to the Company and perform all actions reasonably requested by the Company to establish and confirm such ownership.

(c) All Confidential Information relating to the Company and its affiliates shall be the exclusive property of the Company and its affiliates, and the Executive shall use all reasonable efforts to prevent any publication or disclosure thereof. Upon termination of the Executive's employment with the Company, all documents, records, reports, writings and other similar documents containing Confidential Information, including copies thereof, then in the Executive's possession or control shall be returned to and left with the Company.

11. COPYRIGHTS, PATENTS, TRADEMARKS.

(a) All right, title and interest, of every kind whatsoever, in the United States and throughout the world, in (i) any work, including the copyright thereof (for the full terms and extensions thereof in every jurisdiction), created by the Executive at any time during the term of this Agreement and all material embodiments of the work subject to such rights; and (ii) all inventions, ideas, discoveries, designs and improvements, patentable or not, made or conceived by the Executive at any time during the term of this Agreement, shall be and remain the sole property of the Company without payment of any further consideration to the Executive or any other person, and each such work shall, for purposes of United States copyright law, be deemed created by the Executive pursuant to his or her duties under this Agreement and within the scope of his or her employment and shall be deemed a work made for hire; and the Executive agrees to assign, at the Company's expense, and the Executive does hereby assign, all of his or her right, title and interest in and to all such works, copyrights, materials, inventions, ideas, discoveries, designs and improvements, patentable or not, and any copyrights, letters patent, trademarks, trade secrets, and similar rights, and the applications therefor, which may exist or be issued with respect thereto. For the purposes of this Section 11, "WORKS" shall include all materials created during the term of this Agreement, whether or not ever used by or submitted to the Company, including, without limitation, any work which may be the subject matter of a copyright under United States copyright law. In addition to its other rights, the Company may copyright any such work in its name in the United States in accordance with the requirements of the United States copyright law and the Universal Copyright Convention and any other convention or treaty to which the United States is or may become a party.

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(b) Whenever the Company shall so request, whether during or after the term of this Agreement, the Executive shall execute, acknowledge and deliver all applications, assignments or other instruments; make or cause to be made all rightful oaths; testify in all legal proceedings; communicate all known facts which relate to such works, copyrights, inventions, ideas, discoveries, designs and improvements; perform all lawful acts and otherwise render all such assistance as the Company may deem necessary to apply for, obtain, register, enforce and maintain any copyrights, letters patent and trademark registrations of the United States or any foreign jurisdiction or under the Universal Copyright Convention (or any other convention or treaty to which the United States is or may become a party), or otherwise to protect the

Company's interests therein, including any which the Company shall deem necessary in connection with any proceeding or litigation involving the same. The Company shall reimburse the Executive for all reasonable out-of-pocket costs incurred by the Executive in testifying at the Company's request or in rendering any other assistance requested by the Company pursuant to this Section 11. All registration and filing fees and similar expenses shall be paid by the Company.

12. RESOLUTION OF DISPUTES.

(a) Except as provided in Section 13 below, any controversy or claim between or among the parties relating to the Executive's employment with the Company, including but not limited to those arising from an alleged tort, shall at the request of either party be determined by arbitration. The arbitration shall be conducted in Los Angeles, California, in accordance with the United States Arbitration Act (Title 9, U.S. Code), notwithstanding any choice of law provision in this Agreement, and under the Commercial Rules of the American Arbitration Association ("AAA"). The parties shall have the right to review and approve a panel of prospective arbitrators supplied by AAA, but the arbitration shall be conducted by a single arbitrator selected from the approved panel by AAA or by stipulation of the parties. The arbitrator(s) shall give effect to statutes of limitation in determining any claim. Any controversy concerning whether an issue is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall be entitled to order specific performance of the obligations imposed by this Agreement. Judgment upon the arbitration award may be entered in any court having jurisdiction.

(b) All decisions of the arbitrator(s) shall be final, conclusive and binding on all parties and shall not be subject to judicial review. The arbitrator(s) shall divide all costs (other than fees of counsel) incurred in conducting the arbitration proceeding in the final award in accordance with what they deem just and equitable under the circumstances.

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13. RIGHT TO INJUNCTION.

The Executive recognizes that the services to be rendered by him or her under this Agreement are of a special, unique, unusual, extraordinary and intellectual character involving skill of the highest order and giving them peculiar value the loss of which cannot be adequately compensated for in damages. In the event of a breach of Section 10 or 11 of

this Agreement by the Executive, the Company shall be entitled to injunctive relief or any other legal or equitable remedies. The remedies provided in this Agreement shall be deemed cumulative and the exercise of one shall not preclude the exercise of any other remedy at law or in equity for the same event or any other event. Section 12(a) above does not prohibit a party from seeking and obtaining injunctive relief pending the outcome of arbitration. A party bringing an action for injunctive relief shall not be deemed to have waived its right to demand arbitration of all disputes.

14. ASSIGNMENT.

The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company.

15. AMENDMENT OR ALTERATION.

No amendment or alteration of the terms of this Agreement shall be valid unless made in writing and signed by both of the parties to this Agreement.

16. ATTORNEY'S FEES.

If any action, proceeding or arbitration is brought to enforce or interpret any provision of this Agreement, the Prevailing Party shall be entitled to recover as an element of its costs, and not its damages, its reasonable attorneys' fees, costs and expenses. The "PREVAILING PARTY" is the party who would have been entitled to recover its costs under the California Code of Civil Procedure had the action been maintained in the Superior Court of California, regardless of whether there is a final judgment. A party not entitled to recover its costs may not recover attorneys' fees. No sum for attorneys' fees shall be counted in calculating the amount of a judgment for purposes of determining whether a party is entitled to recover its costs or attorneys' fees.

17. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of

18. SEVERABILITY.

The holding of any provision of this Agreement to be invalid or unenforceable by a court of competent jurisdiction shall not affect any other provision of this Agreement, which shall remain in full force and effect.

19. NOTICES.

Any notices required or permitted to be given under this Agreement shall be sufficient if in writing, and if delivered by hand, or sent by certified mail, return receipt requested, to the addresses set forth above or such other address as either party may from time to time designate in writing to the other, and shall be deemed given as of the date of the delivery or mailing.

20. WAIVER OR BREACH.

It is agreed that a waiver by either party of a breach of any provision of this Agreement shall not operate, or be construed, as a waiver of any subsequent breach by that same party.

21. ENTIRE AGREEMENT AND BINDING EFFECT.

This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and shall be binding upon and inure to the benefit of the parties to this Agreement and their respective legal representatives, heirs, distributors, successors and assigns. Notwithstanding the foregoing, no prior agreements between the Executive and the Company relating to the confidentiality of information, trade secrets and patents shall be affected by this Agreement.

22. SURVIVAL.

The termination of the Executive's employment hereunder shall not affect the enforceability of Sections 10, 11 and 13 of this Agreement.

23. FURTHER ASSURANCES.

The parties agree to execute and deliver all such further documents, agreements and instruments and take such other and further action as may be necessary or appropriate to carry out the purposes and intent of this Agreement.

24. HEADINGS.

This Section headings appearing in this Agreement are for the purposes of easy reference and shall not be considered a part of this Agreement or in any way modify, demand or affect its provisions.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

EQUITY MARKETING, INC.

By: /s/ STEPHEN P. ROBECK

/s/ RONDA DRUMMOND

Ronda Drummond

FIRST AMENDMENT TO
CREDIT AGREEMENT AND CONSENT TO ACQUISITION

THIS FIRST AMENDMENT TO CREDIT AGREEMENT AND CONSENT TO ACQUISITION (the "Amendment and Consent") is made and dated as of the 18th day of September, 1996, by and among SANWA BANK CALIFORNIA ("Sanwa") and IMPERIAL BANK, as the current Lenders under the Credit Agreement referred to below (and as the term "Lenders" and capitalized terms not otherwise defined herein are used in the Credit Agreement), SANWA, in its capacity as Agent for the Lenders, and EQUITY MARKETING, INC., a Delaware corporation (the "Company").

RECITALS

A. Pursuant to that certain Credit Agreement dated as of January 26, 1996, by and among the Agent, the Lenders and the Company (as amended from time to time, the "Credit Agreement"), the Lenders agreed to extend credit to the Company on the terms and subject to the conditions set forth therein.

B. The Company desires to acquire the outstanding capital stock of EPI Group Limited ("EPI") and has requested the Agent and the Lenders to consent to such acquisition as required pursuant to Paragraph 8(d) of the Credit Agreement.

C. The Agent and the Lenders desire to set forth herein the terms and conditions of such consent and to amend the Credit Agreement in certain respects as set forth more particularly below.

NOW, THEREFORE, in consideration of the foregoing Recitals and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT

1. Consent to Acquisition; Waiver of Guaranty and Collateral Requirements. On the terms and subject to the conditions set forth herein, the Agent and each of the Lenders hereby consent to the acquisition by the Company (the "Acquisition") of one hundred percent (100%) of the outstanding capital stock of EPI (the "EPI Stock") on the terms set forth of Schedule 1 attached hereto. Concurrently with the consummation of the Acquisition, and as conditions precedent to the consent of the Agent and the Lenders set forth in this Paragraph 1:

(a) The Company will cause the certificate(s) evidencing the EPI Stock to be delivered to the Agent as Collateral under the Security Agreement accompanied by stock transfer powers executed in blank by the Company, it being expressly acknowledged and agreed by the Company that the EPI Stock constitutes "Pledged Shares" under Paragraph 3(f) of the Security Agreement; and

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(b) Exhibit H to the Credit Agreement will be amended to include EPI as a Subsidiary of the Company and replaced with Amendment Exhibit H attached hereto.

The Agent and the Lenders hereby waive, on a one time basis and only as it relates to EPI, the provisions of Paragraph 4(c) of the Credit Agreement requiring that EPI execute and deliver a Guaranty, a Subsidiary Security Agreement and UCC-1 financing statements. Such agreement of the Agent and the Lenders is given in reliance on the representation and warranty of the Company, confirmed by the Company's execution of this Amendment and Consent, that following the Acquisition all prospective business operations of EPI will cease, that EPI's sole function will be to wind down inventory, payables and receivables and that EPI will have no further business or operations by December 31, 1996. The inaccuracy of such representation and warranty in any respect shall, at the option of the Lenders, constitute an Event of Default under the Credit Agreement.

2. Company/EPI Loan. The Company has informed the Agent and the Lenders that following the consummation of the Acquisition it desires to make advances to EPI in an amount not to exceed \$5,000,000.00 in the aggregate (the "EPI Loan"), the proceeds of which will be utilized by EPI to repay Indebtedness of EPI and for payment of costs and expenses incurred in connection with winding down the business operations of EPI. The EPI Loan will be evidenced by a promissory note payable to the Company (the "EPI Note") and will be secured by a security interest in favor of the Company in the Subsidiary Collateral pursuant to a security agreement (the "EPI Security Agreement"). To reflect the agreement of the Agent and the Lenders to permit the Company to make the EPI Loan and to waive the restrictions under Paragraph 8(g) of the Credit Agreement relating thereto, and as conditions precedent to such agreement and waiver:

(a) The EPI Note and the EPI Security Agreement shall be in form and substance acceptable to the Agent and the Lenders; and

(b) Concurrently with the initial funding under the EPI Loan, the Company will:

(1) Endorse the original of the EPI Note in blank and deliver the same to the Agent; and

(2) Execute and deliver to the Agent an assignment of the Company's rights under the EPI Security Agreement and its rights as "Secured Party" under any and all financing statements to be filed by it against EPI to the Agent.

3. Amendments to Credit Agreement. Effective as of the date of consummation of the Acquisition, the Credit Agreement is hereby amended as follows:

(a) Paragraph 8(a) is hereby amended to delete the word "and" at the end of subparagraph (5) thereof and to insert immediately prior to the period at the end of subparagraph (6) thereof the following:

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"; and

(7) In the case of EPI: (i) Liens securing the EPI Loan, (ii) Liens securing the obligations of EPI under letters of credit issued by Hamlet PLC outstanding on the date of consummation of the acquisition of the outstanding capital stock of EPI by the Company (the "Existing EPI Letters of Credit"), which Liens affect only inventory to be acquired by EPI under the purchase orders supported by such Existing EPI Letters of Credit, and (iii) other Liens existing on the date of the consummation of the acquisition of the outstanding capital stock of EPI by the Company, which Liens are released no later than the fifth Business Day following such date."

(b) Paragraph 8(b) is hereby amended to add the phrase "And shall not permit any Domestic Subsidiary to," immediately prior to the word "Create" in the first line thereof, to add the phrase "(or, in the case of EPI, trade debt existing on the date of consummation of the acquisition of the outstanding capital stock of EPI by the Company which is satisfied in full no later than December 31, 1996)" immediately prior to the semi-colon at the end of subparagraph (3) thereof and to delete the word "and" at the end of subparagraph (9) thereof and to insert immediately prior to the period at the end of subparagraph (10) thereof the following:

"(11) In the case of EPI: (i) Indebtedness not otherwise permitted hereunder which is satisfied in full no later than the fifth Business Day following the consummation of the acquisition of the outstanding capital stock of EPI by the Company, and (ii) Indebtedness with respect to the Existing EPI Letters of Credit in an

amount not to exceed \$2,000,000.00 in the aggregate, provided that the Existing EPI Letters of Credit expire unutilized or are cancelled and any drawings thereunder paid in full no later than December 31, 1996; and

(12) Indebtedness of the Company to EPI in an amount not to exceed \$5,000,000.00 in the aggregate at any time outstanding, representing obligations of EMI on account of the purchase of inventory by EMI from EPI, which Indebtedness is subordinated to the Obligations on terms and conditions satisfactory to the Agent and the Lenders."

(c) A new definition of "EPI" is hereby added, in correct alphabetical order, to Paragraph 12 of the Credit Agreement to read in its entirety as follows:

"'EPI' shall mean the Subsidiary of the Company existing under the name "EPI Group Limited" at the date the outstanding capital stock thereof was acquired by the Company in September 1996."

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(d) Paragraph 8(i) of the Credit Agreement is hereby amended to read in its entirety as follows:

"8(i) Minimum Tangible Net Worth. Permit:

(1) The Company's Tangible Net Worth as of the last day of any calendar quarter, commencing September 30, 1996, to be less than the sum of: (i) \$11,000,000.00, plus (ii) on a cumulative basis (with no deduction for losses) for each calendar quarter after September 30, 1996, (y) seventy-five percent (75%) of the Company's Net Profit After Taxes during such calendar quarter plus (z) seventy-five percent (75%) of the net proceeds of any additional equity shares or Subordinated Debt issued by the Company; or

(2) The Company's consolidated Tangible Net Worth as of the last day of any calendar quarter, commencing September 30, 1996, to be less than the sum of (i) \$12,500,000.00, plus (ii) on a cumulative basis (with no deduction for losses) for each calendar quarter after September 30, 1996, (y) seventy five percent (75%) of the Company's consolidated Net Profit After Taxes during such calendar quarter plus (z) seventy five percent (75%) of the net proceeds of any additional equity shares or Subordinated Debt issued by the Company or its Subsidiaries."

(e) Paragraph 8(k) is hereby amended to read in its

entirety as follows:

"8(k) Minimum Current Ratio. Permit: (1) the Company's ratio of Current Assets to Current Liabilities (excluding Indebtedness permitted under Paragraph 8(b)(7) above), or (2) the Company's ratio of consolidated Current Assets to consolidated Current Liabilities (excluding Indebtedness permitted under Paragraph 8(b)(7) above), to be less than:

<TABLE>

<CAPTION>

As of: -----	Required Ratio -----
<S>	<C>
September 30, 1996	1.25:1.00
December 31, 1996	1.25:1.00
March 31, 1997	1.25:1.00
June 30, 1997	1.25:1.00
September 30, 1997	1.25:1.00
December 31, 1997	1.25:1.00
March 31, 1998 and the last day of each calendar quarter thereafter	1.35:1.00

</TABLE>

(f) Paragraph 8(n) is hereby amended to read in its entirety as follows:

"8(n) Capital Expenditures. And shall not permit any Subsidiary to, make or commit to make (by way of acquisition of the securities of any Person or otherwise), Capital Expenditures, taken in the aggregate for the Company and its consolidated Subsidiaries, in excess of \$1,000,000.00 during fiscal 1996 (excluding from such limitation Capital Expenditures made by EPI prior to the consummation of the acquisition of the stock thereof by the Company) or \$500,000.00 during any fiscal year thereafter."

4. Reaffirmation of Security Agreement. The Company hereby affirms and agrees that (a) the execution and delivery by the Company of and the performance of its obligations under this Amendment and Consent shall not in any way amend, impair, invalidate or otherwise affect any of the obligations of the Company or the rights of the Secured Parties under the Security

Agreement or any other document or instrument made or given by the Company in connection therewith, (b) the term "Obligations" as used in the Security Agreement includes, without limitation, the Obligations of the Company under the Credit Agreement as amended hereby and (c) the Security Agreement remains in full force and effect.

5. Effective Date. This Amendment and Consent shall be effective as of the date that the Agent receives each of the following:

(a) Duly executed signature pages for this Amendment and Consent from each party hereto;

(b) The EPI Note and the other documents required to be delivered to the Agent pursuant to Paragraph 2(b) above; and

(c) A subordination agreement, duly executed by each of the Company and EPI, subordinating to the Obligations the Indebtedness of EMI to EPI permitted pursuant to new Paragraph 8(b)(12) added to the Credit Agreement pursuant to this Amendment and Consent;

provided, however, that if the Acquisition shall not have been consummated and all requirements relating thereto set forth herein, including the delivery of the items described in subparagraphs (a) through (c) above (the "Amendment Documents"), met to the satisfaction of the Agent or before September 30, 1996, then this Amendment and Consent shall, at the option of the Agent and the Lenders as evidenced by a notice to such effect given by the Agent to the Company, terminate and be of no further force or effect.

6. Representations and Warranties. The Company hereby represents and warrants to the Agent and the Lenders as follows:

(a) Each of the Company and EPI has the corporate power and authority and the legal right to execute, deliver and perform this Amendment and Consent and the other

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Amendment Documents to which it is party and has taken all necessary corporate action to authorize the execution, delivery and performance of this Amendment and Consent and the other Amendment Documents to which it is party. The Amendment Documents have been duly executed and delivered on behalf of the Company and EPI, as applicable, and constitute the legal, valid and binding obligations of the Company and EPI, as applicable, enforceable against such Person in accordance with their respective terms.

(b) At and as of the date of execution hereof and at and

as of the effective date of this Amendment and Consent and both prior to and after giving effect hereto: (i) the representations and warranties of the Company contained in the Credit Agreement and the other Loan Documents are accurate and complete in all respects, and (ii) there has not occurred an Event of Default or Potential Default.

7. No Other Amendment. Except as expressly amended hereby, the Loan Documents shall remain in full force and effect as written and amended to date.

8. Counterparts. This Amendment and Consent may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment and Consent to be executed as of the day and year first above written.

EQUITY MARKETING, INC.,
a Delaware corporation

By

Name

Title

SANWA BANK CALIFORNIA, as Agent and
as a Lender

By

Name

Title

IMPERIAL BANK, as a Lender

By

Name

Title

SCHEDULE 1:
DESCRIPTION OF ACQUISITION

PURCHASE PRICE:

PAYMENT OF PURCHASE PRICE:

OTHER MATERIAL TERMS:

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AT SEPTEMBER 30, 1996 AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	DEC-31-1996
<PERIOD-START>	JAN-01-1996
<PERIOD-END>	SEP-30-1996
<CASH>	4,470
<SECURITIES>	0
<RECEIVABLES>	17,039
<ALLOWANCES>	443
<INVENTORY>	11,023
<CURRENT-ASSETS>	34,285
<PP&E>	3,006
<DEPRECIATION>	823
<TOTAL-ASSETS>	42,856
<CURRENT-LIABILITIES>	21,587
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	0
<OTHER-SE>	20,263
<TOTAL-LIABILITY-AND-EQUITY>	42,856
<SALES>	20,099
<TOTAL-REVENUES>	20,099
<CGS>	14,278
<TOTAL-COSTS>	14,278
<OTHER-EXPENSES>	4,062
<LOSS-PROVISION>	91
<INTEREST-EXPENSE>	91
<INCOME-PRETAX>	1,825
<INCOME-TAX>	667
<INCOME-CONTINUING>	1,158
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	1,158
<EPS-PRIMARY>	.20<F1>
<EPS-DILUTED>	.20
<FN>	

<F1>The Company presents primary earnings per share (EPS) on the face of its income statement. Fully diluted EPS is within 97% of primary EPS. The figures

presented above are primary EPS.
</FN>

</TABLE>