
THE STAHL REPORT

October 24, 2014

DreamWorks Animation SKG, Inc.

(BUY)

| | | | |
|-------------------------------|---------------|------------------|-----|
| Price: | \$23.04 | Ticker: | DWA |
| 52-Week Range: | \$19.20-36.01 | Dividend: | N/A |
| Shares Outstanding: | 84.6m | Yield: | N/A |
| Market Capitalization: | \$1,949m | | |

Data as of 10/24/14

Valuations within this text are based on a \$22.47 share price



*Exclusive Marketers of
The Stahl Report*

PCS Research Services
125 Maiden Lane, 6th Floor
New York, NY10038
(212) 233-0100
www.pcsresearchservices.com



Research Team

Murray Stahl

Thérèse Byars

Peter Doyle

Eric Sites

Ryan Casey

Michael Gallant

Salvator Tiano

Steven Bregman

James Davolos

Matthew Houk

Fredrik Tjernstrom

Derek Devens

Utako Kojima

Steven Tuen

Horizon Kinetics LLC ("Horizon Kinetics") is the parent holding company to several SEC-registered investment advisors including Horizon Asset Management LLC and Kinetics Asset Management LLC. PCS Research Services ("PCS") is the exclusive marketer and an authorized distributor of this and other research reports created by Horizon Kinetics. This report is based on information available to the public; no representation is made with regard to its accuracy or completeness. This document is neither an offer nor a solicitation to buy or sell securities. All expressions of opinion reflect judgment as of the date set forth above and are subject to change. Horizon Kinetics, PCS and each of their respective employees and affiliates may have positions in securities of companies mentioned herein. All views expressed in this research report accurately reflect the research analysts' personal views about any and all of the subject matter, securities or issuers. No part of the research analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analysts in the research report. Reproduction of this report is strictly prohibited. © Horizon Kinetics LLC © 2014.

THE STAHL REPORT

Investment Thesis¹

DreamWorks Animation, founded by Steven Spielberg, Jeffery Katzenberg, and David Geffen – the “SKG” in the company’s corporate name, is a media content production company. It produces 2-3 animated features per year, and has created 27 theatrical titles since its inception in 1997.

It is quite obviously recognized that the limited number of animated movies released each year introduces an element of volatility not only to the company’s profits, but in the share price as well. At the moment, the business of DreamWorks is at a low point of sorts – the company’s productions over the last two or three years have generated lower than expected revenues to the extent that a net loss was reported in 2012, and another modest loss is anticipated in 2014.

Of course, the movie production business is entirely unpredictable. The financial fortune of a movie released to the public cannot be known in advance, only forecasted. DreamWorks has created a number of successful titles in the past – Shrek, Madagascar, Kung Fu Panda, to name a few. It is certainly unreasonable to assume that the company’s ability to produce commercially successful animated films has been lost. Mr. Katzenberg, who created some of the most revered children’s movies in history during his time at Disney, remains solidly in control of the DreamWorks production process.

The market, however, recognizes only the near term outlook for the company’s movie release schedule, which is implied by the \$1.9 billion current market capitalization. Later in this report, it will be shown that the recurring revenues produced by the company’s library alone could be worth roughly \$2 billion. This suggests that one can buy the library for the value of the cash flow it currently produces, and receive a free call option on all of the earnings that will inevitably be created from future productions.

This future cash flow could be substantial. In 2004, or during the time of the company’s release of the sequel to the original Shrek title, DreamWorks earned over \$330 million of net profit. If earnings on this order can be restored, even if the investor community were willing to pay merely a 12x earnings multiple, DreamWorks would be worth \$4 billion, or twice the current value. If a reasonable estimate of the value of the film library were incorporated into a mean earnings regression scenario, DreamWorks trades at a fraction of its peak earnings power.

¹ Readers might reference the Stahl Report dated 10/15/14, which recommended the purchase of Lions Gate Entertainment. Lions Gate is a media content company that produces live action films and television episodes. Read in conjunction with the current DreamWorks Animation report, one will find similarities in the two businesses, as well as commentary as to the valuation dynamics of these quasi royalty-based companies.

THE STAHL REPORT

This type of mispricing, presumably, is due to a lack of a proper understanding of the company's business model. Above all, DreamWorks is an intellectual property-based company. While the financial media and, to a great extent, the analyst community, place almost their entire attention on the immediate theatrical results of the company's movie releases, one of the most valuable pieces is an asset that receives no attention – its movie library. Once movies are placed in the library, this intellectual property has virtually an unlimited product life and, most importantly, does not require any cost to maintain. This library produces recurring revenue in the form of royalty and licensing fees for decades after the initial release of the title to the public.

This is a stable and valuable cash flow component that is masked by the volatility of the actual movie production business. During production and immediately following the initial release, a title is generally unprofitable due to the substantial production and marketing costs. The underlying profitability of this intellectual property is almost always earned years and even decades after through licensing fees and product sales. If one fails to separate the two distinctly different businesses operated by DreamWorks, the value of its film royalty segment will be ignored. Nevertheless, the wide misunderstanding of the company creates opportunity for the informed investor and, accordingly, the shares are recommended for purchase.

Company Description

Background

DreamWorks Studios was founded by entertainment industry veterans David Geffen, Jerry Katzenberg, and Steven Spielberg in 1994. Initially, DreamWorks produced live action movies. In 1997 the company created a studio that was devoted to animated productions. Prior to computer generated, or 3-D animation, animated films were created using hand drawn, two-dimensional images. This animation division of DreamWorks Studios became known as DreamWorks Animation.

Due to the financial success of early 3-D titles such as Shark Tales and Shrek, DreamWorks Animation abandoned two-dimensional productions, and focused exclusively on computer generated imaging. The early success of these movies also allowed DreamWorks Animation to operate as a separate entity. In 2004, the company was separated from DreamWorks Studios and offered its shares to the public via an initial public offering.

THE STAHL REPORT

The original DreamWorks Studios was later acquired by Paramount Studios (an entity of Viacom); however, only a few years later, DreamWorks formed an agreement that allowed it to separate from Viacom, and again operate independently.

Jeffery Katzenberg assumed control of DreamWorks Animation upon its initial public offering in 2004. Mr. Katzenberg has a long history in the movie production business, particularly in creating animated features. He operated the animated studio business of Disney from 1984-1994, producing titles such as Lion King, Little Mermaid, Beauty & the Beast, and Alladin.

He is currently the CEO of DreamWorks Animation, and the company's largest shareholder. Mr. Katzenberg owns 2.4 million Class A shares, and 7.8 million Class B shares that are super-voting (i.e., 15 votes per share, and convertible into Class A shares). As a result, his equity ownership is approximately 12% of the company's shares outstanding, and his ownership of the super-voting Class B shares equates to 61% of the overall voting rights. Thus, in the voting sense, he has majority control of the company. It should also be noted that Steven Spielberg remains a shareholder, owning approximately 6.7% of the company's shares outstanding.

Operating Segments

DreamWorks Animation operates four segments: Feature Films, Television Series, Consumer Products, and a non-feature film segment referred to as "Other" (the non-feature film business will be discussed within the next section of this report).

The feature film business currently releases two or three titles per year. These are computer generated, animated films that target the youth (i.e., children) market segment. In producing only a couple of feature films a year, DreamWorks Animation relies heavily on the financial results of each release. A commercially successful production, such as historical titles including Shrek and Madagascar, has the additional benefit of allowing for the release of sequels. In fact, Shrek has become one of the most financially rewarding properties in animated movie history.

The company has four upcoming animated features that will be released during the remainder of 2014 and also in 2015. These are Home, The Penguins, B.O.O., and Kung Fu Panda 3. It is believed that these films will begin to reverse the company's fortunes of the last three years. To express this, the consensus 2015 revenue estimate for the company is \$985 million, which is a 30% increase over the 2014 estimate of \$756 million. Recent productions such as Rise of the Guardians, Turbo, and Mr. Peabody & Sherman have had difficulty in even recovering production costs, meaning that these films have produced near term losses for the company.

THE STAHL REPORT

Importantly, these are near term losses. The lifecycle of a movie title extends many years beyond the initial release. Once placed in the library, licensing fees are earned from television distribution and consumer product manufacturing, and also from DVD sales. DreamWorks is also able to create revenue through the licensing of its properties to cruise ship operators, Broadway theatrical producers, and amusement park owners. So while these more recent titles have generated less than anticipated revenues at the theater channel, the residual revenue that will be earned in coming years is clearly an underappreciated aspect of the company.

DreamWorks is also beginning to evolve into a more diversified media content company, particularly through the production of television series-based content. As a logical extension of its feature film business, the company has been producing television series based on properties such as Madagascar and Kung Fu Panda, which are distributed on the Nickelodeon network. In 2012, the company produced a series based on its How To Train A Dragon title for distribution on the Cartoon Network. DreamWorks receives either a per episode licensing fee or a share of the associated revenues, depending on the distribution partner.

More recently, the company has begun producing exclusive content for distribution on Netflix. Under this agreement, DreamWorks will produce 300 hours of original content for Netflix, based mostly on its existing movie title properties. This highlights the value that may be extracted from the company's library and the multiple sources of cash flow that can be created from a single movie property.

Moreover, this agreement underscores an important element of the current media industry landscape. That is, distribution outlets such as Netflix, Hulu, or the content streaming services of various networks are increasingly purchasing content on exclusive distribution terms. In providing this content, which cannot be viewed on any other network or content venue, the distributors are able to retain subscribers and raise fees. As a provider of content and owner of its intellectual property, this places DreamWorks in a strategically advantageous position, and introduces new forms of revenue that were not available in years past.

The table below provides the company's revenues realized per segment.

THE STAHL REPORT

Table 1: DreamWorks Animation Revenues by Category

| | 2013 | 2012 | 2011 |
|-------------------|-----------|-----------|-----------|
| Feature Films | \$500 | \$583 | \$551 |
| Television Series | 106 | 75 | 74 |
| Consumer Products | 67 | 49 | 43 |
| Other | <u>34</u> | <u>43</u> | <u>38</u> |
| Total | \$707 | \$750 | \$706 |

(\$ in millions)

The Company's Attempts to Reduce the Volatility of its Business

DreamWorks produced revenues of \$1.1 billion and net earnings of \$333 million in 2004, based on the success of the Shrek 2 release that year. Since then, the company has created a number of widely viewed theatrical releases, but none have realized the revenues of the original Shrek franchise. Annual sales, on average, have been recorded in the \$700 million range.

There have been of course periods in which revenues have been below that average and DreamWorks has therefore struggled to earn a profit, which is shown below.

Table 2: Historical DreamWorks Animation Financial Results

| Year | Revenues | Operating Income | Operating Margin | Net Income | Net Margin |
|------|----------|------------------|------------------|------------|------------|
| 2013 | \$707 | \$76 | 10.7% | \$56 | 7.9% |
| 2012 | 750 | (65) | n/m | (36) | n/m |
| 2011 | 706 | 110 | 15.6% | 87 | 12.3% |
| 2010 | 785 | 167 | 21.3% | 170 | 21.7% |
| 2009 | 725 | 193 | 26.6% | 151 | 20.8% |
| 2008 | 650 | 172 | 26.5% | 142 | 21.8% |
| 2007 | 767 | 291 | 37.9% | 218 | 28.4% |
| 2006 | 395 | (1) | n/m | 15 | 3.8% |
| 2005 | 462 | 115 | 24.9% | 105 | 22.7% |
| 2004 | 1,078 | 439 | 40.7% | 333 | 30.9% |

(\$ in millions)

THE STAHL REPORT

Clearly, this variability is due to the limited number of productions released every year. In addition, the company has only created 27 theatrical releases in its 20-year history (when first formed, DreamWorks Animation had few employees and released only one title per year). Ergo, by virtue of this, the company's library is not incredibly deep with respect to the number of titles owned. The library, which produces stable, recurring revenue, has not yet reached a size that compensates for the volatility of theatrical release sales. Over a period of years, however, as the library increases in size, it will naturally have the effect of becoming a larger, more stabilizing component of the overall business.

Nevertheless, DreamWorks has embarked upon a broader strategy to reduce this volatility. As previously noted, the company is using its library of content properties to create television episodes, which is an entirely new initiative. These revenues are based on longer duration viewing periods and are not confined to the short 4-6 week theatrical window. This should, in part, begin to eliminate the company's reliance on theatrical releases.

The entrance into television, or non-theater based content, is also noteworthy within the context of the broader U.S. movie industry. Media content can be viewed at virtually any location in the world at any time of the day via mobile internet devices. Additionally, the content companies are producing titles that are viewed not in the traditional movie theaters, but exclusively on these mobile platforms (e.g., Netflix, Facebook, Hulu, etc.). This has begun to diminish attendance at movie theaters. While the operators of theaters have been able to gradually increase ticket prices to compensate for the attendance decline, revenues within the industry are not growing meaningfully above the consumer price inflation rate, which is presented in the following table. At a practical level, a consumer can purchase a three month subscription to Netflix and have household access to the entire Netflix library for roughly the price of admission for a family of four to view one movie at the theater (based on an \$8 per ticket movie price, and the current monthly Netflix streaming video subscription fee of \$9)

THE STAHL REPORT

Table 3: U.S./Canada Movie Revenue Data

| Year | Box Office Revenues | Admissions | Price per Ticket |
|--------------------------|---------------------|---------------|------------------|
| 2013 | \$10.9 | 1.34 | \$8.13 |
| 2012 | 10.8 | 1.36 | 7.96 |
| 2011 | 10.2 | 1.28 | 7.93 |
| 2010 | 10.6 | 1.34 | 7.89 |
| 2009 | 10.6 | 1.42 | 7.50 |
| 2008 | 9.6 | 1.34 | 7.18 |
| 2007 | 9.6 | 1.40 | 6.88 |
| 2006 | 9.2 | 1.40 | 6.55 |
| 2005 | 8.8 | 1.38 | 6.41 |
| 2004 | 9.3 | 1.50 | 6.21 |
| <i>Cumulative Change</i> | <i>17.2%</i> | <i>-10.7%</i> | <i>30.9%</i> |

(In billions, except Price per Ticket)

In another effort to diversify its business, DreamWorks has been pursuing a number of partnerships, joint ventures, and increasingly undertaking acquisitions. For instance, in 2013 the company formed a joint venture with China Media Capital and other Chinese media entities to create Oriental DreamWorks Holding Ltd. DreamWorks owns 45.5% of this venture and will contribute up to \$50 million in seed capital to fund the early operations. This venture will create both live action and animated original content for the Chinese market. Currently, it is mostly a footnote in the company's financial statements; however, if DreamWorks is able to successfully enter the Chinese entertainment industry via established local partners, there appears to be a real opportunity to expand on an international basis.

The company has also been acquiring content properties and distribution companies. For example, in 2013 it purchased a company known as Classic Media, which owns the rights to properties such as Casper (the ghost character), Lassie, and Rudolph the Red Nose Reindeer. DreamWorks will begin producing television episodes and animated features based on these characters. Similarly, in 2014 the company acquired the rights to the Felix the Cat property, and will exploit this asset in similar fashion.

THE STAHL REPORT

In 2013, DreamWorks purchased a company called AwesomenessTV, which is an online media production company that distributes content through YouTube. Earlier this year, DreamWorks acquired Big Frame, which is an online media advertising business.

So the company is not standing still. It is gradually evolving from a company solely dependent on one or two movie releases per year, to a more broadly diversified media content owner with multiple sources of revenue. It also seems reasonable to suppose that DreamWorks will continue to acquire properties in order to expand its library, from which future revenues can be derived. These are valuable pieces of intellectual property over which the company now has exclusive production rights. In the case of Classic Media, the company will attempt to revive these decades-old characters on new production formats.

Valuation

Traditional Approach

While the traditional analyst will apply multiples to normal financial metrics such as current sales, net income, or book value, and compare those to the ratios of other companies within the media sector, this uncreative approach only reveals a partial depiction of the underlying value of a library's content. This quantitative screening method impairs one's ability to evaluate less common business models, such as the one operated by DreamWorks.

In the table below, it will be observed that the vast majority of media content companies currently trade at around 16x forward-looking earnings and at 2x-3x consensus estimated revenues. Ergo, on a P/E ratio basis, investors have priced the shares of these companies in a manner that is consistent with that of the broader equity market. Importantly, the following table includes both theatrical content-based companies such as DreamWorks Animation and Lions Gate as well as more traditional, cable network-based firms including Time Warner and AMC Networks. This latter group, while owners of their content, distribute this on their own network. Thus, revenues are produced from advertising and cable programming fees. This is fundamentally different from the primary source of revenues for a company such as DreamWorks. Nevertheless, the market has not made such a distinction, and priced these companies in general uniform fashion.

THE STAHL REPORT

Table 4: Media Industry Valuation Comparison

| | Time Warner | AMC Networks | Scripps Networks | Starz | Discovery Comm. | Lions Gate Enter. | DreamWorks |
|---------------------------------|-------------|--------------|------------------|---------|-----------------|-------------------|------------|
| Market Capitalization | \$66,150 | \$4,260 | \$10,480 | \$3,320 | \$12,522 | \$4,669 | \$1,901 |
| Net Debt | 18,083 | 2,474 | 1,183 | 1,102 | 6,702 | 615 | 368 |
| Enterprise Value | \$84,233 | \$6,734 | \$11,663 | \$4,422 | \$19,224 | \$5,284 | \$2,269 |
| 2015E Revenues | \$28,720 | \$2,380 | \$2,880 | \$1,760 | \$7,170 | \$2,670 | \$985 |
| 2015 P/E | 16.7x | 12.8x | 16.7x | 13.0x | 16.3x | 17.2x | 23.7x |
| 2015 EV/Revenues | 2.9x | 2.8x | 4.0x | 2.5x | 2.7x | 2.0x | 2.3x |
| Last Full Year Operating Margin | 23.0% | 28.2% | 37.9% | 23.9% | 36.1% | 9.9% | 10.7% |

Within this context, several weeks ago the financial media reported that the Japanese conglomerate, Softbank, has held discussions with DreamWorks in an effort to acquire the company for a reported price of \$32 per share. This implies a market capitalization of \$2.7 billion, which is a 42% premium to the current value. Including the DreamWorks net debt of \$368 million, this would suggest an enterprise value multiple of 3.1x the consensus 2015 sales estimate of \$987 million.² Irrespective of whether or not these negotiations even occurred, or continue to occur, the acquisition of content has taken place with some regularity over the last few years. It is certainly not surprising that DreamWorks Animation would be a subject of such discussions, given that it owns some of the more valuable animated film content created over the last half century.

From the Approach of the DreamWorks Animation Library

While most investors place focus on the immediate financial results of the company's theatrical releases, let us present another viewpoint that assesses the possible value based not on the production business, but on the royalty income features of the library. To establish this, the following table presents the revenues earned solely from the company's library over the last four years.

² As of June 2014, DreamWorks Animation recorded a liability, payable to a former shareholder, of \$268 million. This is related to previous transactions the company engaged in with former shareholder, Paul Allen, who is the co-founder of Microsoft. The liability is a tax issue – to the extent that the value of the company's assets increases, a small portion of any potential tax savings are to be paid to Paul Allen. This liability fluctuates based on the value of the company's assets; thus, while the current estimate is \$268 million, this amount has been excluded from the enterprise value calculation. Technically speaking, one could include this liability as a future debt payment, although given the size of the liability it is not substantial to the overall value of the company.

THE STAHL REPORT

Table 5: DreamWorks Animation Library Revenue

| Year | Library Revenues | Total DWA Revenues | Library as % of Total |
|------|------------------|--------------------|-----------------------|
| 2013 | \$173 | \$707 | 24.5% |
| 2012 | 169 | 750 | 22.5% |
| 2011 | 188 | 706 | 26.6% |
| 2010 | 196 | 785 | 25.0% |

These revenues are produced from previously released movie and television titles. The most common revenue sources are from DVD sales and fees earned from cable networks for the privilege to broadcast the content. Revenues can also be realized from licensing the properties to consumer product companies for the manufacture of toys, home accessory items, clothing, etc. The important aspect is that there is very little cost associated with this business – the vast majority of expenses are incurred during the production and theatrical release stage.

If this premise is accepted, it can be demonstrated that the majority of the company's earnings are generated by the library. For instance, last year DreamWorks recorded \$76 million of operating income. The library realized \$173 million of revenues, most of which was likely converted to operating income, given the high margin feature of this business. It then can be reasonably asserted that virtually all of the company's profit last year was attributed to the library.

This has important valuation implications. Let us assume that this were a separate business, essentially a royalty trust. Comparisons could be made to other royalty-like companies, perhaps those such as Texas Pacific Land Trust, Silver Wheaton, and Royal Gold. These companies collect fixed income streams based on either assets owned, or capital invested in natural resource development projects. The profit features of these companies are nearly identical, in that there are very few operating expenses. The largest expense is generally the payment of corporate taxes. In the case of Texas Pacific Land Trust, the company's most recent net margin was roughly 61%. Silver Wheaton and Royal Gold, both operating similar business models, produce after tax free cash flow margins (net income plus depreciation and amortization, less capital expenditures) of 65%-74%.

If a 60% net margin were applied to the four-year average DreamWorks library revenues of \$181.5 million, this segment's net earnings would be \$108.9 million. This is a business that would most likely be valued based on the annual income distributed to investors. Since there are virtually no capital expenditures involved, in theory the entirety of this income could be paid as a dividend. At a 6% yield, which is the equivalent of a 16.7x p/e

THE STAHL REPORT

ratio, the library would be worth \$1.8 billion. This should be viewed in relation to the company's total market capitalization of \$1.9 billion.

A 6% dividend yield might actually be conservative. Take for example the Vanguard Dividend Appreciation ETF (VIG), which is a passive fund that owns dividend-paying stocks. The current yield on this fund is 2.1%. Moreover, the Vanguard REIT ETF (VNQ), referenced here because it is often used by asset allocators to generate yield or consistent income for client portfolios, currently yields only 4%. If the DreamWorks library were valued at a 4% dividend yield, it would be worth \$2.7 billion, or a premium of 43% to the current company value.

So in many ways, it can be argued that the present market capitalization of DreamWorks reflects only the value (or, even partial value) of the library. This gives no consideration to the future productions, which will only increase the cash flow of the library over time.

Consider the company's peak earnings of \$333 million in 2004. This was largely the result of the Shrek franchise. If this success could be replicated in the future, DreamWorks would be worth, at a 12x P/E multiple, \$4 billion, which is twice the current value. Thus, one can purchase the company for the value of its current library, and receive this type of future earnings optionality for free. Phrased differently, if the full success mode production value of the company could be \$4 billion based on historical earnings, and the current library is worth \$2 billion, one could assert that the potential value of the assets could be \$6 billion, or 3x the current price.

In addition, one also receives, at no additional cost, any future cash flow generated from the company's various joint ventures and partnerships, which certainly could be profitable over time. The degree to which the company is undervalued can only be explained by a broad misunderstanding of its business model.

ETF-Related Comment

DreamWorks Animation is sufficiently liquid. The effective float, or excluding Mr. Katzenberg's ownership, is 74.4 million shares outstanding – a float-adjusted market capitalization of \$1.7 billion. However, its market capitalization is quite small relative to most mainstream media companies such as 21st Century Fox, Disney, or Time Warner. As a result, it is excluded from media ETFs altogether. Its exclusion from the \$1.5 trillion world of passive investing may explain in part, while not entirely, the company's low market capitalization relative to its potential economic value.

THE STAHL REPORT

Investment Summary

DreamWorks Animation is a misunderstood business. It is viewed as an animated feature film company that has had its share of disappointing movie releases over the last three years. The company's current market capitalization suggests these fortunes will never recover.

However, in reality DreamWorks Animation is also a royalty company, collecting income on the library of proprietary content produced over the last 20 years. This stream of cash flow is enormously valuable, as it is mostly stable and has virtually no cost associated with it. If the investor discards the use of traditional quantitative stock screening methods, and assesses the company's value based on the two distinct businesses – the movie production segment and the library of content – it will become evident that the DreamWorks Animation shares are clearly mispriced, and could be worth at least twice the current value. Accordingly, the shares are recommended for purchase.

THE STAHL REPORT

CONSOLIDATED BALANCE SHEETS (Unaudited)

| | June 30, 2014 | December 31, 2013 |
|---|--|----------------------|
| | (in thousands, except par value and share amounts) | |
| Assets | | |
| Cash and cash equivalents | \$ 32,196 | \$ 95,467 |
| Trade accounts receivable, net of allowance for doubtful accounts (see Note 7 for related party amounts) | 146,991 | 130,744 |
| Receivables from distributors, net of allowance for doubtful accounts (see Note 7 for related party amounts) | 212,669 | 283,226 |
| Film and other inventory costs, net | 979,919 | 943,486 |
| Prepaid expenses | 22,133 | 20,555 |
| Other assets | 31,940 | 23,385 |
| Investments in unconsolidated entities | 49,300 | 38,542 |
| Property, plant and equipment, net of accumulated depreciation and amortization | 184,200 | 186,670 |
| Deferred taxes, net | 250,265 | 221,920 |
| Intangible assets, net of accumulated amortization | 197,438 | 150,511 |
| Goodwill | 189,667 | 179,722 |
| Total assets | \$ 2,296,718 | \$ 2,274,228 |
| Liabilities and Equity | | |
| Liabilities: | | |
| Accounts payable | \$ 4,899 | \$ 5,807 |
| Accrued liabilities | 232,317 | 263,668 |
| Payable to former stockholder | 261,694 | 262,309 |
| Deferred revenue and other advances | 35,082 | 36,425 |
| Revolving credit facility | 100,000 | — |
| Senior unsecured notes | 300,000 | 300,000 |
| Total liabilities | 933,992 | 868,209 |
| Commitments and contingencies (Note 17) | | |
| Equity: | | |
| DreamWorks Animation SKG, Inc. Stockholders' Equity: | | |
| Class A common stock, par value \$0.01 per share, 350,000,000 shares authorized, 104,334,982 and 104,155,993 shares issued, as of June 30, 2014 and December 31, 2013, respectively | 1,043 | 1,042 |
| Class B common stock, par value \$0.01 per share, 150,000,000 shares authorized, 7,838,731 shares issued and outstanding, as of June 30, 2014 and December 31, 2013 | 78 | 78 |
| Additional paid-in capital | 1,116,412 | 1,100,101 |
| Accumulated other comprehensive income (loss) | 95 | (600) |
| Retained earnings | 1,014,075 | 1,072,398 |
| Less: Class A Treasury common stock, at cost, 27,503,479 and 27,439,119 shares, as of June 30, 2014 and December 31, 2013, respectively | (770,037) | (768,224) |
| Total DreamWorks Animation SKG, Inc. stockholders' equity | 1,361,666 | 1,404,795 |
| Non-controlling interests | 1,060 | 1,224 |
| Total equity | 1,362,726 | 1,406,019 |
| Total liabilities and equity | \$ 2,296,718 | \$ 2,274,228 |

THE STAHL REPORT

DREAMWORKS ANIMATION SKG, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|------------------|------------------------------|------------------|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands, except per share amounts) | | | |
| Revenues (see Note 7 for related party amounts) | \$ 122,277 | \$ 213,436 | \$ 269,518 | \$ 348,084 |
| Costs of revenues | 87,532 | 133,276 | 248,221 | 218,797 |
| Gross profit | 34,745 | 80,160 | 21,297 | 129,287 |
| Product development | 611 | 1,069 | 1,151 | 2,032 |
| Selling, general and administrative expenses | 54,595 | 49,711 | 101,774 | 92,500 |
| Change in fair value of contingent consideration | (7,220) | — | (4,720) | — |
| Other operating income (see Note 7 for related party amounts) | (2,317) | (2,859) | (3,989) | (2,859) |
| Operating (loss) income | (10,924) | 32,239 | (72,919) | 37,614 |
| Non-operating income (expense): | | | | |
| Interest (expense) income, net | (2,484) | 777 | (4,257) | 1,640 |
| Other income, net | 1,853 | 1,050 | 3,071 | 2,042 |
| Decrease (increase) in income tax benefit payable to former stockholder | 1,695 | (371) | 2,622 | (1,069) |
| (Loss) income before loss from equity method investees and income taxes | (9,860) | 33,695 | (71,483) | 40,227 |
| Loss from equity method investees | 3,467 | 1,329 | 6,727 | 1,329 |
| (Loss) income before income taxes | (13,327) | 32,366 | (78,210) | 38,898 |
| Provision (benefit) for income taxes | 2,601 | 10,118 | (19,866) | 10,536 |
| Net (loss) income | (15,928) | 22,248 | (58,344) | 28,362 |
| Less: Net (loss) income attributable to non-controlling interests | (541) | (5) | (21) | 532 |
| Net (loss) income attributable to DreamWorks Animation SKG, Inc. | \$ (15,387) | \$ 22,253 | \$ (58,323) | \$ 27,830 |
| Net (loss) income per share of common stock attributable to DreamWorks Animation SKG, Inc. | | | | |
| Basic net (loss) income per share | \$ (0.18) | \$ 0.27 | \$ (0.69) | \$ 0.33 |
| Diluted net (loss) income per share | \$ (0.18) | \$ 0.26 | \$ (0.69) | \$ 0.33 |
| Shares used in computing net (loss) income per share | | | | |
| Basic | 84,554 | 83,524 | 84,520 | 84,094 |
| Diluted | 84,554 | 84,533 | 84,520 | 84,898 |