October 22, 2010

Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Subject: Exposure Draft, Revenue Recognition: Revenue from Contracts with Customers
File Reference Number 1820-100

DreamWorks Animation SKG, Inc. (DWA or the Company) primarily develops, produces and exploits animated films and characters in the worldwide theatrical, home entertainment, television, merchandising and licensing and other markets. DWA also develops and produces television specials and series, live entertainment performances and online virtual worlds based on characters from its feature films. DWA files with the Securities and Exchange Commission (SEC) as a large accelerated filer. DWA currently follows the guidance set forth in Accounting Standards Codification (ASC) 926, Entertainment – Films, to determine how to recognize revenue related to the exploitation of its films and other properties in various markets.

The Company greatly appreciates the opportunity to provide its comments regarding the proposed Accounting Standards Update (ASU), Revenue Recognition: Revenue from Contracts with Customers (the Exposure Draft or ED). With the increasing number of U.S. based companies becoming multinational, DWA supports the Financial Accounting Standards Board’s (FASB) efforts to converge the revenue recognition framework and guidance with those of the International Accounting Standards Board. While DWA understands and supports the new revenue recognition model based on transfer of control, the Company has some concerns as to whether the proposed guidance is in sufficient detail to enable companies operating in similar industries to produce consistent and comparable financial data and has concerns that it may lead to increased volatility of reported results. The Company believes this could lead to financial information that is not meaningful to financial statement users. The Company recognizes that the Board supports a single framework to be applied to all industries. As set forth in this letter, the Company would like to share and illustrate from its perspective as a producer of entertainment in the media and entertainment industry its concerns with regard to certain specific areas within the Exposure Draft that appear to give rise to certain challenges to revenue recognition.

Revenues from licensing activities.

The ED states that an arrangement contains an exclusivity clause if rights granted to one customer substantially differ from rights granted to another customer. The Company has concerns about this guidance as it believes the ED's guidance is vague on how an entity should determine if rights
granted to a customer are in fact “exclusive” when the asset can be re-licensed simultaneously or subsequently in another market (e.g. pay or free television, home entertainment, merchandising, theatrical, etc.) or territory (geographic location). The Company notes that under the current ED, revenue is to be recorded over the term of the license period if the exclusivity period is less than an asset’s economic life. DWA has concerns as to whether this treatment is consistent with the ED’s overriding principle of recording revenue upon transfer of control.

DWA commonly enters into agreements to license its intellectual property (IP), such as the right to exploit characters from its animated feature films or the right to exploit the actual film itself. These license arrangements generally include exclusivity clauses for either a stated period of time, market or territory. In the vast majority of the Company’s licensing arrangements, once the license period begins and the creative elements have been delivered to the other party, control has been transferred and DWA has no further performance obligations. The Company does not believe that the mere existence of the passage of time in an exclusive license is representative of continuous transfer of control as it does not represent the transfer of goods or services to the customer. Additionally, DWA contemplated whether an exclusivity clause is considered a separate performance obligation and concluded that it does not find such a view consistent with the guidance of a “distinct” item as set forth in ED paragraph 23. The Company does not believe that the exclusivity clause meets the criteria for being a distinct item because: 1) it is not something that the Company sells separately, 2) it is not something DWA could sell separately (i.e. selling the exclusivity clause separate from the license of the Company’s IP), and 3) it does not have a distinct profit margin as it does not have distinct risks nor separately identifiable resources needed to provide the good or service. Accordingly, DWA believes control has transferred at that distinct point in time when it has delivered its creative elements to the third party and the license period has commenced and, therefore, recognition of revenue should occur at this point. Furthermore, DWA believes that recognition of revenue upon the commencement of the license term and delivery of creative elements would be consistent with how the ED has defined when a performance obligation is satisfied (ED paragraphs 25 to 33 including the Implementation Guidance for these paragraphs).

Furthermore, pursuant to the Background Information and Basis for Conclusions section (specifically BC224), the Company understands that the Board views exclusivity as a period of time during which a company is constrained from using its IP, and as such, revenue should be recognized over time similar to the accounting for a lease. However, the Company believes that there are differences between the lease of tangible property and the license of the Company’s IP. Unlike a lease in which the leased asset can only be leased to one party at a time, the Company can license the same IP to numerous licensees. As discussed previously, the Company believes that the transfer of control occurs when the license period begins and the customer has use of the IP.

However, should the Board continue to be of the opinion that a distinction between a non-exclusive and exclusive license arrangement is necessary, DWA encourages the Board to revisit the proposed definition of “exclusivity” and the current Implementation Guidance provided (IG37). One example of exclusivity provided in IG37 is a motion picture studio granting one customer the exclusive right to air a television series during one time period and granting another customer the exclusive right to air the same series during another time period. First, it is unclear as to whether “time” is meant to be interpreted as the hour in the day (e.g. an 8:00 pm time slot on a Thursday night) or whether it is meant to refer to a span of time counted in the number of days (e.g. a license to sell merchandise containing DWA characters for a 30 day window). Under both interpretations, DWA would not view the two scenarios presented in IG37 (as described above) as being substantially different. To illustrate the challenges of defining exclusivity, consider a contract in which a customer is granted a license of DWA’s IP to allow the customer to be the exclusive seller of one of DWA’s feature films in a 3D DVD format for
a stated period of time. The view of exclusivity and constrain on IP in this specific example would be limited to 1) the DVD format, 2) the added 3D format, and 3) a specific film. However, there are many other ways that DWA would be able to exploit this same IP without breaching the terms of the Company’s contract that grants the “exclusivity” pursuant to this one agreement. For example, DWA would still be able to sell DVDs for the same feature film in a 2D format or provide for certain digital streaming of the same 2D or 3D content.

Additionally, the Company finds the ED unclear as to what revenue recognition methods would be most appropriate to determine how to recognize the revenue associated with an agreement containing exclusivity. Based on its review of numerous interpretations of the ED, the Company notes there is a wide consensus that, as a matter of practicality, such revenue will typically be recognized on a straight-line basis over the term of the exclusivity period (based in part on the view that exclusivity means the transfer of control is continuous). The Company is not sure whether or not it was the Board’s intent for the straight-line revenue recognition over the duration of an exclusivity period to emerge as the predominate method. However, assuming the straight-line approach is primarily accepted (and setting aside previous discussion as to whether separate deliverables exist), the Company does not support this view. The Company believes it would not be appropriate to attribute equal value to the IP deliverable and the exclusive license throughout the license term for the reasons set forth below.

First, the value of exploitation rights for a film, television or character property typically are much greater at the beginning of the licensing period as the end-consumers’ interest in viewing or purchasing such an item declines over time as they are exposed to the item. Accordingly, the Company believes greater amounts of revenue should be attributable to earlier periods in a licensing arrangement. However, estimating such amounts would be highly subjective and such estimates could vary greatly among entities. If companies defaulted to straight-line revenue recognition, the result would not represent the economic substance of the arrangement. Secondly, the Company has concerns that recognizing revenues over the term of the exclusivity period could have an impact to the amount of revenues that can be included in its forecasts of “ultimate revenue” (which is utilized for its film cost amortization computations). Pursuant to ASC 926-20-35-4 and 926-20-35-5, in its projections of ultimate revenue the Company may only include revenue expected to be recognized over a period not to exceed ten years. Thus, while revenue recognition for an exclusive license could commence within the 10-year window, if the term of that license extended beyond the 10 year ultimate revenue period, the Company would not be able to include the full amount of the transaction price in its projections of ultimate revenue which would result in the potential mismatch of the cost of film amortization and revenue recognition.

The Company encourages the Board to provide further clarification of permissible alternate methods for the recognition of revenue that is subject to an exclusivity clause as to permit Companies to better assign values to exclusivity clauses based on the underlying economic value. For example, the Company would suggest that the Board consider permitting Companies to determine whether or not an agreement’s exclusivity clause requires it to expend any additional effort or performance, and if not, assign it a de minimis value and, therefore, not warranting separate revenue recognition.

DWA believes that the current ED guidance provided for determining exclusivity will be inconsistently interpreted and applied across the media and entertainment industry (as well as among different industries), due to the potential that exclusivity can be interpreted in multiple ways. Additionally, the Company is concerned that with the constant evolution of technology, the methods by which film companies can exploit and deliver their IP is ever changing such that creating too narrow of a current definition of exclusivity may not be relevant or practical in the near future. Overall, the Company
believes that even if an exclusivity clause exists within an agreement, once the required creative elements have been delivered and the license period has begun, the control of an asset has been transferred to the other party, and, accordingly, any exclusivity provisions are de minimis in value and therefore, there are no further items that should preclude revenue recognition.

**Variable consideration.**

The Company noted that the ED provides that an entity shall recognize revenue if the transaction price can be reasonably estimated, and that the transaction price of an arrangement may be dependent upon the outcome of a future event which would require management to assess the probability associated with each possible outcome. The Company has concerns that these provisions on variable consideration may lead to recognition of revenue before certain of an arrangement’s key contingent events are settled, particularly as those contingent activities that are dependent upon the customer’s performance obligations. For example, media and entertainment companies often are able to estimate a range of a film’s ultimate theatrical revenue after a certain period of time after its initial theatrical release but before it has completed its theatrical run. In accordance with the ED, a company could potentially recognize revenue before a film has completed its theatrical run. However, each company’s ability to “reasonably estimate” such amounts will vary based upon its respective historical experience and relative materiality thresholds and, therefore, the timing and amount of recognition for the same economic transaction may vary significantly between companies. DWA has concerns that these issues could lead to financial information that is not meaningful to users of financial statements or lead them to make improper decisions.

**Time value of money.**

The Company notes that, under the proposed ED, an entity is to adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component. The Company further noted that this concept extends beyond just credit extended to a customer, but also includes financing provided by a customer to the entity. The Company agrees that the concept of time value of money should be applied to a material (explicit or implicit) financing component for credit extended to a customer, which is consistent with the accounting under current United States Generally Accepted Accounting Principles (U.S. GAAP) and, from an investor standpoint, a reasonable investor would expect the present value of money to be lower than the transaction price if there was a delay between the time revenue was earned and the subsequent receipt of cash. However, if the opposite occurs (e.g. an entity receives cash upfront, or an advance payment), the Company believes it would be a rare occurrence that the advance payment would be viewed as having an underlying notion that it is meant to provide financing to the Company. The Company notes that in IAS 84, an advance payment that may be perceived as containing a material financing component could result in an entity recognizing revenue in excess of the consideration received. This appears to diverge from the fundamentals of accounting in which all transactions, once settled, should reconcile and agree to cash inflow or outflow.

The Company suggests that the time value of money issues could be addressed by clarifying in the ED that an entity should evaluate the underlying rationale and intent of the payment terms in a contract to determine whether there is a material financing component. The Company believes that this would assist in the interpretation of the Board’s intent of inclusion of a time value of money concept.
Adoption and transition.

The Company has serious concerns about adopting the proposed accounting standard on a retrospective basis, even if provided an extended period of time from the finalization of the model to the effective date. In order for the Company to produce accurate financial statements in accordance with the ED's provisions and SEC filing requirements (including preparing the appropriate audit evidence for the Company's external auditors and implementing the necessary internal controls for compliance with Section 404 of the Sarbanes-Oxley Act), a significant amount of time, effort and cost would be required to perform a comprehensive reevaluation of all its numerous contracts for each of its individual films and properties, identify the separate performance obligations within each contract, determine the transaction price for each of the identified performance obligations and identify at which point control was transferred for each of those obligations.

DWA expects that the proposed revenue recognition model would have a significant impact on the Company's reported revenues. Under existing U.S. GAAP (ASC 926), the Company currently recognizes revenue and records film amortization (i.e. cost of sales) for its capitalized feature film costs based on actual revenues as a percentage of a revenue forecast (not to exceed 10 years from the date of release) on a film-by-film basis. The recasting of this revenue forecast under the proposed revenue model creates several issues requiring reconsideration on a film-by-film basis that may significantly affect the timing of forecasted and recognized revenues within, and possibly past, the 10-year window, thus, resulting in significantly different revenue forecasts in any given reporting period for each of the Company's films and properties. Accordingly, the Company would then need to factor such impacts into the resulting film cost amortization calculations and income tax provision. DWA believes retrospective implementation would be more feasible if the Board changed the provisions on accounting for variable consideration and exclusivity as discussed above.

DWA also recommends that the Board consider limiting the required footnote disclosures of the proposed accounting standard, in the year of implementation, to only the most current year presented. The Company believes that this will partially alleviate the burden of implementing the proposed revenue accounting standard (as well as any other standards that may be issued during the same period). DWA believes that presenting three years of comparable financial data coupled with one year of detailed disclosures would provide sufficient information for a user of financial statements in making decisions.

As briefly alluded to above, the Company also encourages the Board to consider the impacts of the proposed ED and the resultant impacts to a company's internal controls environment and compliance with the provisions of Section 404 of the Sarbanes-Oxley Act. As the Board deliberates the effective date, DWA strongly encourages the Board to consider the amount of time companies will need in order to properly educate their accounting and operational groups of the impacts of a new revenue model, as well as have sufficient time to evaluate new contracts under the old and the new guidance simultaneously.

In conclusion, while DWA supports a model where revenue is recognized based on transfer of control, the Company is skeptical as to whether the application of the current proposed Exposure Draft will result in revenue amounts that reflect the underlying economics of the related revenue-generating transactions. Thus, DWA believes that this does not provide meaningful financial information to users of financial statements.
DWA appreciates the opportunity to comment on the Exposure Draft and respectfully requests that the Board evaluate and consider its concerns. Please do not hesitate to contact me if you have questions regarding the comments raised herein. We would also welcome the opportunity to come meet with you in person.

Very truly yours,

[Signature]

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