

WORLD WRESTLING ENTERTAINMENT INC

Form 10-Q

August 07, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27639

**WORLD WRESTLING ENTERTAINMENT, INC.  
(Exact name of Registrant as specified in its charter)**

**Delaware**

(State or other jurisdiction of incorporation or organization)

**04-2693383**

(I.R.S. Employer Identification No.)

**1241 East Main Street  
Stamford, CT 06902  
(203) 352-8600**

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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 period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes            No        X

At July 20, 2007 the number of shares outstanding of the Registrant's Class A common stock, par value \$.01 per share, was 23,830,184 and the number of shares outstanding of the Registrant's Class B common stock, par value \$.01 per share, was 47,713,563.

**World Wrestling Entertainment, Inc.**  
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**World Wrestling Entertainment, Inc.**  
**Consolidated Income Statements**  
**(in thousands, except per share data)**  
**(unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net revenues	\$ 137,511	\$ 119,339	\$ 244,902	\$ 214,417
Cost of revenues	100,524	72,955	158,621	124,375
Selling, general and administrative expenses	25,008	22,979	51,369	49,973
Depreciation and amortization	2,252	2,038	4,604	4,412
Operating income	9,727	21,367	30,308	35,657
Investment income, net	1,681	1,806	3,979	3,804
Interest expense	126	138	234	280
Other (expense)/income, net	(60)	13	346	997
Income before income taxes	11,222	23,048	34,399	40,178
Provision for income taxes	4,176	8,381	12,215	16,057

Net income	\$ 7,046	\$ 14,667	\$ 22,184	\$ 24,121
Earnings per share □ Basic and Diluted				
Net income	\$ 0.10	\$ 0.21	\$ 0.31	\$ 0.34
Weighted average common shares outstanding:				
Basic	71,307	71,176	71,176	69,952
Diluted	72,145	71,397	71,949	70,409

See Notes to Consolidated Financial Statements.

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**World Wrestling Entertainment, Inc.**  
**Consolidated Balance Sheets**  
**(dollars in thousands)**  
**(unaudited)**

	As of June 30, 2007	As of December 31, 2006
<b>CURRENT ASSETS:</b>		
Cash and equivalents	\$ 82,367	\$ 86,267
Short-term investments	183,789	161,889
Accounts receivable, net	54,608	52,113
Inventory, net	3,309	3,049
Prepaid expenses and other current assets	19,856	13,803
Total current assets	343,929	317,121
PROPERTY AND EQUIPMENT, NET	66,678	67,972
FEATURE FILM PRODUCTION ASSETS	39,273	53,560
INTANGIBLE ASSETS, NET	2,761	3,328
OTHER ASSETS	13,557	11,304
TOTAL ASSETS	\$ 466,198	\$ 453,285
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term debt	\$ 894	\$ 862
Accounts payable	14,890	14,909
Accrued expenses and other liabilities	31,272	25,837
Deferred income	18,660	20,166
Total current liabilities	65,716	61,774
LONG-TERM DEBT	5,345	5,800
NON-CURRENT TAX LIABILITY	11,130	-
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Class A common stock	238	233

Class B common stock	477	477
Additional paid-in capital	298,440	286,985
Accumulated other comprehensive income	1,552	666
Retained earnings	83,300	97,350
Total stockholders' equity	384,007	385,711
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 466,198</b>	<b>\$ 453,285</b>

See Notes to Consolidated Financial Statements.

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**World Wrestling Entertainment, Inc.**  
**Consolidated Statements of Cash Flows**  
**(dollars in thousands)**  
**(unaudited)**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>
	<b>2007</b>	<b>2006</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 22,184	\$ 24,121
Adjustments to reconcile net income to net cash provided by operating activities:		
Write-off of feature film production assets	15,919	-
Revaluation of warrants	(117)	(714)
Depreciation and amortization	4,604	4,412
Realized loss on sale of investments	730	1,029
Amortization of investment income	(247)	(776)
Stock compensation costs	4,218	2,795
Provision for doubtful accounts	(573)	101
Provision for inventory obsolescence	1,090	1,119
Benefit for deferred income taxes	(1,636)	(1,754)
Excess tax benefits from stock-based payment arrangements	(795)	(1,475)
Changes in assets and liabilities:		
Accounts receivable	(1,923)	75
Inventory	(1,350)	(1,658)
Prepaid expenses and other assets	3,508	3,156
Feature film production assets	(1,631)	(10,737)
Accounts payable	(18)	(1,654)
Accrued expenses and other liabilities	6,070	4,298
Deferred income	(1,259)	(1,299)
Net cash provided by operating activities	48,774	21,039
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(2,578)	(4,629)
Purchase of film library assets	(166)	(2,264)
Purchase of short-term investments	(79,695)	(20,154)
Proceeds from sales or maturities of short-term investments	57,275	101,615
Net cash (used in) provided by investing activities	(25,164)	74,568

<b>FINANCING ACTIVITIES:</b>		
Repayments of long-term debt	(422)	(391)
Dividends paid	(34,214)	(33,583)
Issuance of stock, net	438	305
Proceeds from exercise of stock options	5,893	12,753
Excess tax benefits from stock-based payment arrangements	795	1,475
Net cash used in financing activities	(27,510)	(19,441)
<b>NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS</b>	<b>(3,900)</b>	<b>76,166</b>
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	86,267	101,314
CASH AND EQUIVALENTS, END OF PERIOD	\$ 82,367	\$ 177,480

See Notes to Consolidated Financial Statements.

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**World Wrestling Entertainment, Inc.**  
**Consolidated Statement of Stockholders' Equity and Comprehensive Income**  
**(dollars and shares in thousands)**  
**(unaudited)**

	Common Shares	Stock Amount	Additional Paid - in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, December 31, 2006	70,998	\$ 710	\$ 286,985	\$ 666	\$ 97,350	\$ 385,711
<b>Comprehensive income:</b>						
Net income					22,184	22,184
Translation adjustment				788		788
Unrealized holding gain, net of tax				(354)		(354)
Reclassification adjustment for losses realized in net income, net of tax				452		452
Total comprehensive income						23,070
Stock issuances, net	72	1	35			36
Exercise of stock options	446	4	5,889			5,893
Excess tax benefits from stock based payment arrangements			795			795
Dividends paid			518		(34,732)	(34,214)
Stock compensation costs			4,218			4,218
Adjustment to apply FIN 48					(1,502)	(1,502)
Balance, June 30, 2007	71,516	\$ 715	\$ 298,440	\$ 1,552	\$ 83,300	\$ 384,007

See Notes to Consolidated Financial Statements.

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## 1. Basis of Presentation and Business Description

The accompanying consolidated financial statements include the accounts of World Wrestling Entertainment, Inc., and our subsidiaries. We are an integrated media and entertainment company, with operations organized around four principal segments:

### Live and Televised Entertainment

- Revenues consist principally of ticket sales to live events, sales of merchandise at these live events, television rights fees, sales of television advertising and sponsorships, and fees for viewing our pay-per-view and video on demand programming.

### Consumer Products

- Revenues consist principally of the direct sales of WWE produced home videos and magazine publishing and royalties or license fees related to various WWE themed products such as video games, toys and books.

### Digital Media

- Revenues consist principally of advertising sales on our websites, sale of merchandise on our website through our WWEShop internet storefront and various broadband and mobile content.

### WWE Films

- Consists of the production and distribution of filmed entertainment featuring our Superstars. Two feature films were released in 2006 and one film was released in 2007, however, no revenues have been recorded to date as we do not participate in revenues until the print and advertising costs incurred by our distributors have been recouped and the results have been reported to us.

All significant intercompany balances have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation. The accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows at the dates and for the periods presented have been included. The results of operations of any interim period are not necessarily indicative of the results of operations for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain information and note disclosures normally included in annual financial statements have been condensed or omitted from these interim financial statements; these financial statements should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the transition period ended December 31, 2006.

Beginning on January 1, 2007, we switched our fiscal periods to a calendar basis with a fiscal year end on December 31. All references to years in this report relate to calendar years.

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### **Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS 157 also requires expanded disclosures to provide information about the extent to which fair value is used

to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS 157 is effective for us on January 1, 2008. We are currently assessing the potential effect of SFAS 157 on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement 115* (SFAS 159). SFAS 159 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for us on January 1, 2008. We are currently assessing the potential effect of SFAS 159 on our financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined in FIN 48 as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is estimated to be greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 must be applied to all existing tax positions upon initial adoption. As a result of the implementation of FIN 48 on January 1, 2007, we recognized a \$1,502 increase in the liability for unrecognized income tax benefits, with a corresponding decrease in the opening balance of retained earnings.

At the adoption date of January 1, 2007, we had \$10,382 of unrecognized tax benefits, all of which would affect our effective tax rate if recognized. At June 30, 2007, we have \$11,130 of unrecognized tax benefits.

We recognize potential accrued interest and penalties related to uncertain tax positions in income tax expense. We have approximately \$2,831 of accrued interest related to uncertain tax positions as of June 30, 2007.

We file income tax returns in the U.S., various states and various foreign jurisdictions. With few exceptions, we are subject to income tax examinations by tax authorities for years on or after April 30, 2004.

As of June 30, 2007, we do not have any tax positions for which management believes it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

## 2. Share Based Compensation

Effective May 1, 2006, we adopted SFAS 123(R) using the modified prospective method. Prior to May 1, 2006, we accounted for stock option grants using the intrinsic value method. Compensation expense relating to restricted stock unit grants was recognized over the period during which the employee rendered service to the Company necessary to earn the award. In accordance with the modified prospective method, results for prior periods have not been restated. Stock based compensation cost was approximately \$2,124 and \$1,387 for the three months ended June 30, 2007 and 2006, respectively, and \$4,242 and \$2,795 for the six months ended June 30, 2007 and 2006, respectively. We have not issued options since June 2004.

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The following table summarizes option activity as of June 30, 2007 and changes during the period then ended:

Activity	Number of Options	Weighted Average Exercise Price
Outstanding as of January 1, 2007	1,715,300	\$ 13.14
Granted	-	
Exercised	(446,147)	\$ 13.21
Cancelled or expired	(44,502)	\$ 12.65
Outstanding as of June 30, 2007	1,224,651	\$ 13.43
Exercisable as of June 30, 2007	1,014,106	\$ 12.46

The following table summarizes restricted stock unit activity as of June 30, 2007 and changes during the period then ended:

Activity	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding as of January 1, 2007	1,087,138	\$ 14.60
Granted	90,000	\$ 16.53
Vested	(66,078)	\$ 17.56
Forfeitures	(112,821)	\$ 14.93
Dividends	32,430	\$ 15.94
Outstanding as of June 30, 2007	1,030,669	\$ 15.22

Total compensation cost related to the grants, based on the estimated value of the units on the grant date is \$1,487 and is being amortized over the vesting period, which is three years.

The following table provides relevant information as to reported results for the three months ended June 30, 2006 under our intrinsic value method of accounting for stock options with supplemental information as if the fair value recognition provisions of SFAS 123 had been applied:

	<b>For the Three Months Ended June 30, 2006</b>
Reported income from operations	\$ 14,667
Add:	
Stock-based employee compensation expense included in reported income from operations, net of related tax effects	860
Deduct:	
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,043)
Pro forma income from operations	\$ 14,484
Reported basic and diluted earnings from operations per common share	\$ 0.21
Pro forma basic and diluted earnings from operations per common share	\$ 0.21

### 3. Stockholders' Equity

We paid quarterly dividends of \$0.24 per share on all Class A and Class B common shares, or \$17,158 and \$34,214 for the three and six months ended June 30, 2007, respectively, and \$16,955 and \$33,583 for the three and six months ended June 30, 2006,