

WORLD WRESTLING ENTERTAINMENT INC
Form 10-Q
May 04, 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 March 31, 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 April 30, 2007 the number of shares outstanding of the Registrant's Class A common stock, par value \$.01 per share, was 23,434,862 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)**

	Three Months Ended	
	March 31, 2007	March 31, 2006
Net revenues	\$ 107,391	\$ 95,078
Cost of revenues	58,097	51,420
Selling, general and administrative expenses	26,361	26,994
Depreciation and amortization	2,352	2,374
Operating income	20,581	14,290
Investment income, net	2,298	1,998
Interest expense	108	142
Other income, net	406	984
Income before income taxes	23,177	17,130

Provision for income taxes	8,039	7,676
Net income	\$ 15,138	\$ 9,454
Earnings per share □ Basic		
Net income	\$ 0.21	\$ 0.14
Earnings per share □ Diluted	\$ 0.21	\$ 0.13
Net income		
Weighted average common shares outstanding:		
Basic	71,041	69,885
Diluted	71,853	70,940

See Notes to Consolidated Financial Statements.

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

	As of March 31, 2007	As of December 31, 2006
CURRENT ASSETS:		
Cash and equivalents	\$ 76,495	\$ 86,267
Short-term investments	178,909	161,889
Accounts receivable, net	44,505	52,113
Inventory, net	3,866	3,049
Prepaid expenses and other current assets	19,911	13,803
Total current assets	323,686	317,121
PROPERTY AND EQUIPMENT, NET	67,527	67,972
FEATURE FILM PRODUCTION ASSETS	54,278	53,560
INTANGIBLE ASSETS, NET	2,971	3,328
OTHER ASSETS	12,835	11,304
TOTAL ASSETS	\$ 461,297	\$ 453,285
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 877	\$ 862
Accounts payable	14,428	14,909
Accrued expenses and other liabilities	22,221	25,837
Deferred income	21,650	20,166
Total current liabilities	59,176	61,774
LONG-TERM DEBT	5,574	5,800
NON-CURRENT TAX LIABILITY	10,848	-

COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY:			
Class A common stock		234	233
Class B common stock		477	477
Additional paid-in capital		290,327	286,985
Accumulated other comprehensive income		1,009	666
Retained earnings		93,652	97,350
Total stockholders' equity		385,699	385,711
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	461,297	\$ 453,285

See Notes to Consolidated Financial Statements.

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

	Three Months Ended	
	March 31, 2007	March 31, 2006
OPERATING ACTIVITIES:		
Net income	\$ 15,138	\$ 9,454
Adjustments to reconcile net income to net cash provided		
by operating activities:		
Revaluation of warrants	(352)	(1,012)
Depreciation and amortization	2,352	2,374
Realized loss on sale of investments	-	555
Amortization of investment income	(123)	(565)
Stock compensation costs	2,118	1,407
Provision for doubtful accounts	(50)	289
Provision for inventory obsolescence	550	530
(Benefit) provision for deferred income taxes	(443)	430
Excess tax benefits from stock-based payment arrangements	(20)	-
Changes in assets and liabilities:		
Accounts receivable	7,657	13,223
Inventory	(1,367)	(759)
Prepaid expenses and other assets	(6,973)	(3,586)
Feature film production assets	(718)	(799)
Accounts payable	(514)	465
Accrued expenses and other liabilities	5,834	(4,254)
Deferred income	1,608	1
Net cash provided by operating activities	24,697	17,753
INVESTING ACTIVITIES:		

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Purchases of property and equipment	(1,488)	(1,807)
Purchase of film library assets	(62)	(875)
Purchase of short-term investments	(21,667)	(931)
Proceeds from sales or maturities of short-term investments	5,000	50,015
Net cash (used in) provided by investing activities	(18,217)	46,402
FINANCING ACTIVITIES:		
Repayments of long-term debt	(211)	(195)
Dividends paid	(17,056)	(16,628)
Issuance of stock, net	369	243
Proceeds from exercise of stock options	626	8,885
Excess tax benefits from stock-based payment arrangements	20	-
Net cash used in financing activities	(16,252)	(7,695)
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(9,772)	56,460
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	86,267	101,314
CASH AND EQUIVALENTS, END OF PERIOD	\$ 76,495	\$ 157,774

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 Stock Shares	Common 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
Comprehensive income:						
Net income					15,138	15,138
Translation adjustment				121		121
Unrealized holding gain, net of tax				222		222
Total comprehensive income						401,192
Stock issuances, net	28		334			334
Exercise of stock options	51	1	625			626

Excess tax benefits from stock based payment arrangements			20			20
Dividends paid			278		(17,334)	(17,056)
Stock compensation costs			2,085			2,085
Adjustment to apply FIN 48					(1,502)	(1,502)
Balance, March 31, 2007	71,077	\$ 711	\$ 290,327	\$ 1,009	\$ 93,652	\$ 385,699

See Notes to Consolidated Financial Statements.

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World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)
(unaudited)

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, 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 Transition Report on Form 10-K for the period ended December 31, 2006.

Beginning on January 1, 2007, we switched its 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.

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)
(unaudited)

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 March 31, 2007, we have \$10,848 of unrecognized tax benefits.

We recognize potential accrued interest and penalties related to uncertain tax positions in income tax expense. We have approximately \$2,625 of accrued interest related to uncertain tax positions as of March 31, 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 March 31, 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 \$2,118 and \$1,408 for the three months ended March 31, 2007 and 2006, respectively. We have not issued options since June 2004.

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World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)
(unaudited)

The following table summarizes option activity as of March 31, 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	(50,963)	\$ 12.28
Cancelled or expired	(10,084)	\$ 11.73
Outstanding as of March 31, 2007	1,654,253	\$ 13.17
Exercisable as of March 31, 2007	1,326,961	\$ 13.35

The following table summarizes restricted stock unit activity as of March 31, 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	75,000	\$ 16.16
Vested	(5,645)	\$ 14.76
Dividends	17,551	\$ 15.82
Outstanding as of March 31, 2007	1,174,044	

Total compensation cost related to the grants, based on the estimated value of the units on the grant date is \$1,212 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 March 31, 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:

	For the Three Months Ended March 31, 2006
Reported income from continuing operations	\$ 9,454
Add: Stock-based employee compensation expense included in reported income from operations, net of related tax effects	873
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,044)
Pro forma income from operations	\$ 9,283
Reported basic earnings from operations per common share	\$ 0.14
Reported diluted earnings from operations per common share	\$ 0.13
Pro forma basic and diluted earnings from operations per common share	\$ 0.13

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World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)
(unaudited)

3. Stockholders' Equity

We paid quarterly dividends of \$0.24 per share, or \$17,056 and \$16,628 on all Class A and Class B common shares for the three months ended March 31, 2007 and 2006, respectively.

4. Earnings Per Share

For purposes of calculating basic and diluted earnings per share, we used the following weighted average common shares outstanding:

	Three months ended	
	March 31, 2007	March 31, 2006
Basic	71,041,026	69,884,619
Diluted	71,853,121	70,940,265
Dilutive effect of outstanding options and restricted stock units	812,095	1,055,646
Anti-dilutive outstanding options	277,000	306,000

5. Segment Information

During 2006, we expanded the number of our reportable segments to four in order better to reflect the manner in which management analyzes our performance including our digital media businesses and the production of feature films. We have also reclassified certain other operations between the reportable segments. All prior year segment information has been adjusted to reflect the current presentation. We do not allocate corporate overhead to each of the segments, and as a result, corporate overhead is a reconciling item in the table

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below. There are no intersegment revenues. Revenues derived from sales outside of North America were approximately \$24,072 and \$24,113 for the three months ended March 31, 2007 and 2006, respectively. Unallocated assets consist primarily of cash, short-term investments, real property and other investments.

	Three months ended	
	March 31, 2007	March 31, 2006
Net revenues:		
Live and Televised Entertainment	\$ 63,045	\$ 61,351
Consumer Products	37,397	28,855
Digital Media	6,949	4,872
WWE Films	□	□
Total net revenues	\$ 107,391	\$ 95,078
Depreciation and amortization:		
Live and Televised Entertainment	\$ 910	\$ 920
Consumer Products	419	507
Digital Media	208	210
WWE Films	□	□
Corporate	815	737
Total depreciation and amortization	\$ 2,352	\$ 2,374
Operating income:		
Live and Televised Entertainment	\$ 20,502	\$ 21,022
Consumer Products	22,078	17,016
Digital Media	291	150
WWE Films	(457)	(491)
Corporate	(21,833)	(23,407)
Total operating income	\$ 20,581	\$ 14,290

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(dollars in thousands)
(unaudited)

	As of	
	March	December
	31,	31,
	2007	2006
Assets:		
Live and Televised Entertainment	\$ 92,621	\$ 77,083
Consumer Products	10,194	14,982
Digital Media	6,775	6,128
WWE Films	57,728	56,299