

WORLD WRESTLING ENTERTAINMENT INC

Form 10-Q

August 07, 2007

**UNITED STATES 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 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 X 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 X 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)**

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2006	2007	2006
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
CURRENT ASSETS:		
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
CURRENT LIABILITIES:		
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	-
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
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
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 466,198	\$ 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)

	Six Months Ended	
	June 30,	June 30,
	2007	2006
OPERATING ACTIVITIES:		
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
INVESTING ACTIVITIES:		
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

FINANCING ACTIVITIES:		
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)
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(3,900)	76,166
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
Comprehensive income:						
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.

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

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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:

	For the Three Months Ended June 30, 2006
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, 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		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2006	2007	2006
Basic	71,307,423	71,176,246	71,175,704	69,952,083
Diluted	72,145,790	71,397,862	71,948,938	70,409,137
Dilutive effect of outstanding options and restricted stock units	837,188	656,351	773,234	642,252
Anti-dilutive outstanding options	-	10,292	174,400	277,700

5. Segment Information

During 2006, we expanded the number of our reportable segments to four in order to 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 below. There are no inter-segment revenues. Revenues derived from sales outside of North America were approximately \$33,397 and \$57,469 for the three and six months ended June 30, 2007, respectively, and \$28,181 and \$52,294 for the three and six months ended June 30, 2006, respectively. Unallocated assets consist primarily of cash, short-term investments, real property and other investments.

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2007	2006	2007	2006
Net revenues:				
Live and Televised Entertainment	\$ 102,884	\$ 92,597	\$ 165,928	\$ 153,948
Consumer Products	26,449	20,408	63,846	49,264
Digital Media	8,178	6,333	15,127	11,205
WWE Films	-	-	-	-
Total net revenues	\$ 137,511	\$ 119,339	\$ 244,902	\$ 214,417
Depreciation and amortization:				
Live and Televised Entertainment	\$ 903	\$ 869	\$ 1,813	\$ 1,789
Consumer Products	314	340	733	847
Digital Media	207	108	416	317
WWE Films	-	-	-	-
Corporate	828	721	1,642	1,459
Total depreciation and amortization	\$ 2,252	\$ 2,038	\$ 4,604	\$ 4,412
Operating income:				
Live and Televised Entertainment	\$ 30,370	\$ 29,990	\$ 50,871	\$ 51,012
Consumer Products	14,018	9,425	36,097	26,442
Digital Media	1,947	1,222	2,238	1,372
WWE Films	(16,406)	(407)	(16,863)	(897)
Corporate	(20,202)	(18,864)	(42,036)	(42,271)
Total operating income	\$ 9,727	\$ 21,367	\$ 30,308	\$ 35,657

	As of	
	June 30,	December
	2007	31,
		2006
Assets:		

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Live and Televised Entertainment	\$ 90,252	\$ 77,083
Consumer Products	11,735	14,982
Digital Media	7,234	6,128
WWE Films	39,273	56,299
Unallocated	317,704	298,793
Total assets	\$ 466,198	\$ 453,285

6. Property and Equipment

Property and equipment consisted of the following:

	June 30, 2007	As of December 31, 2006
Land, buildings and improvements	\$ 56,808	\$ 56,084
Equipment	47,647	45,752
Corporate aircraft	20,829	20,829
Vehicles	634	634
	125,918	123,299
Less accumulated depreciation and amortization	(59,240)	(55,327)
Total	\$ 66,678	\$ 67,972

Depreciation and amortization expense for property and equipment was \$1,938 and \$3,871 for the three and six months ended June 30, 2007, respectively, as compared to \$1,698 and \$3,565 for the three and six months ended June 30, 2006, respectively.

7. Feature Film Production Assets

Feature film production assets are summarized as follows:

	June 30, 2007	As of December 31, 2006
Feature film productions:		
In release	\$ 37,979	\$ 34,104
Completed but not released	-	18,558
In development	1,294	898
Total	\$ 39,273	\$ 53,560

Two of our feature films, *See No Evil* and *The Marine*, were released in 2006. *See No Evil* achieved more than \$15,000 in gross domestic box office receipts while *The Marine*, has achieved more than \$18,800 in gross domestic box office receipts. Our third feature film, *The Condemned*, was released domestically on April 27, 2007 and achieved more than \$7,300 in gross domestic box office receipts to-date.

Approximately 56% of [In release] film production assets are estimated to be amortized over the next twelve months. Approximately 80% of [In release] film production assets are estimated to be amortized over the next three years.

Unamortized feature film production assets are evaluated for impairment each reporting period. If the estimated revenue is not sufficient to recover the unamortized asset, the asset will be written down to fair value. During the three months ended June 30, 2007 we recorded an asset impairment charge of \$15,662, which reflects our updated expectations related to the performance of *The Condemned*. As of June 30, 2007, we do not believe any additional capitalized assets included in Feature Film Production Assets are impaired.

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In addition to the capitalized production costs related for these three films, we have also capitalized certain script development costs for various other film projects. Capitalized script development costs are reviewed periodically for impairment, and are expensed if a project is deemed to be abandoned. During the three and six months ended June 30, 2007 we expensed \$257 of previously capitalized development costs for abandoned projects. There were no costs incurred in the prior year for abandoned projects.

8. Intangible Assets

Intangible assets consist of acquired sports entertainment film libraries, trademarks and trade names. We have classified these costs as intangible assets and amortize them over the period of the expected revenues to be derived from these assets, generally from three to six years.

Intangible assets consisted of the following:

	As of June 30, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Film libraries	\$ 7,470	\$ (5,524)	\$ 1,946
Trademarks and trade names	3,708	(2,893)	815
	\$ 11,178	\$ (8,417)	\$ 2,761

	As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Film libraries	\$ 7,304	\$ (5,077)	\$ 2,227
Trademarks and trade names	3,708	(2,607)	1,101
	\$ 11,012	\$ (7,684)	\$ 3,328

Amortization expense was \$314 and \$733 for the three and six months ended June 30, 2007, respectively, as compared to \$340 and \$847 for the three and six months ended June 30, 2006, respectively.

The following table presents estimated future amortization expense:

For the year ending December 31, 2007	\$ 635
For the year ending December 31, 2008	1,261
For the year ending December 31, 2009	851
For the year ending December 31, 2010	14
	\$ 2,761

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9. Short-term Investments

Short-term investments consisted of the following as of June 30, 2007 and December 31, 2006:

	Cost	June 30, 2007 Unrealized Holding Loss	Fair Value
Fixed-income mutual funds and other	\$ 76,056	\$ (2,892)	\$ 73,164
Municipal auction rate securities	110,625	-	110,625
Total	\$ 186,681	\$ (2,892)	\$ 183,789

	Cost	December 31, 2006 Unrealized Holding Loss	Fair Value
Fixed-income mutual funds and other	\$ 89,990	\$ (3,101)	\$ 86,889
Municipal auction rate securities	75,000	□	75,000
Total	\$ 164,990	\$ (3,101)	\$ 161,889

10. Commitments and Contingencies**Legal Proceedings*****World Wide Fund for Nature***

There has been no significant development in this legal proceeding subsequent to the disclosure in Note 12 of Notes to Consolidated Financial Statements in our Transition Report on Form 10-K for the fiscal period ended December 31, 2006, except as follows:

By order and judgment dated April 2, 2007, the English Court of Appeals reversed the High Court, ruling that the Fund is not entitled in point of law to seek restitutionary damages against us. On May 1, 2007, the Fund filed a petition to the House of Lords for leave to appeal the judgment of the Court of Appeals. On June 28, 2007, the House of Lords refused to grant leave to appeal.

Shenker & Associates; THQ/Jakks

There has been no significant development in this legal proceeding subsequent to the disclosure in Note 11 of Notes to Consolidated Financial Statements in our Transition Report on Form 10-K for the fiscal period ended December 31, 2006, except as follows:

With regard to the Shenker & Associates matter, on May 1, 2007, Stanley Shenker and Jim Bell were sentenced by the United States District Court for the District of Connecticut in connection with their criminal conduct directed towards us, for which they previously pled guilty. Shenker was sentenced to thirty-three months in prison and Bell was sentenced to eight months in prison. We have received approximately \$0.8 million out of the previously reported \$2.8 million that Shenker is required as a part of his sentencing to pay to us as restitution. No assurances can be given that we will be successful in collecting the entire \$2.8 million.

With regard to the Connecticut state court matter, on March 30, 2007, we filed a motion to cite in and to amend complaint in order to add new claims against the existing defendants, THQ, Inc. and THQ/Jakks Pacific, LLC, and new defendants, Jakks Pacific, Inc., Jack Friedman, Steve Berman, Joel Bennett, Brian Farrell, and Stanley Shenker and Associates, Inc., and Shenker. The new claims relate to the defendants' conduct in connection with the corruption of WWE's agents, Shenker and Bell, and collusion to secure the WWE videogame license for THQ/Jakks.

IPO Class Action

There has been no significant development in this legal proceeding subsequent to the disclosure in Note 12 of Notes to Consolidated Financial Statements in our Transition Report on Form 10-K for the fiscal period ended December 31, 2006, except as follows:

On July 2, 2007, based upon the Second Circuit's ruling (previously disclosed in our 10-K) that the certification of this proceeding as a class action was invalid, the plaintiffs and issuer-defendants filed a stipulation with the court terminating the proposed settlement.

Other

We have recently received letters from the U.S. Congressional Committee on Oversight and Government Reform and the Subcommittee on Commerce, Trade, and Consumer Protection requesting information relating to our drug policies. We will respond accordingly.

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Background

As previously disclosed, we changed our financial reporting to a calendar basis beginning with calendar year 2007. This change is intended to simplify our communication with shareholders and enables us to report our financial results in a timeframe consistent with the majority of our media and entertainment peers.

In 2006 we expanded the number of our reportable segments to four in order to better 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 information has been adjusted to reflect the current presentation. The following analysis outlines all material activities contained within each segment.

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 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 feature 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.

Results of Operations

Three Months Ended June 30, 2007 compared to Three Months Ended June 30, 2006
(Dollars in millions, except as noted)

Summary

	June 30, 2007	June 30, 2006	better (worse)
Net Revenues			
Live and Televised Entertainment	\$ 102.9	\$ 92.6	11%
Consumer Products	26.4	20.4	30%
Digital Media	8.2	6.3	30%
WWE Films	-	-	NA
Total	\$ 137.5	\$ 119.3	15%

	June 30, 2007	June 30, 2006	better (worse)
Cost of Revenues:			
Live and Televised Entertainment	\$ 69.5	\$ 59.6	(17%)
Consumer Products	10.6	9.6	(11%)
Digital Media	4.5	3.8	(19%)
WWE Films	15.9	-	NA
Total	\$ 100.5	\$ 73.0	(38%)
Profit contribution margin	27%	39%	

	June 30, 2007	June 30, 2006	better (worse)
Operating Income:			
Live and Televised Entertainment	\$ 30.4	\$ 30.0	1%
Consumer Products	14.0	9.4	49%
Digital Media	1.9	1.2	58%
WWE Films	(16.4)	(0.4)	NA
Corporate	(20.2)	(18.8)	(8%)
Total operating income	\$ 9.7	\$ 21.4	(55%)
Net income	\$ 7.0	\$ 14.7	(52%)

Our Live and Televised Entertainment segment revenues benefited from both strong international and North American live events. Our Consumer Products segment reflected increases in licensing based revenues, specifically from the sales of licensed toys and apparel. Our Digital Media revenue increase reflects additional wireless based content and advertising revenues. Our operating income in the current quarter was negatively impacted by the recording of an asset impairment for our feature film *The Condemned*. Based upon the film's performance to-date, we have reduced the capitalized film asset by approximately \$15.7 million to its net fair value.

The following chart reflects comparative revenues and key drivers for each of the businesses within our Live and Televised Entertainment segment:

	June 30, 2007	June 30, 2006	better (worse)
Live and Televised Entertainment Revenues			
Live events	\$ 30.1	\$ 25.0	20%

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Number of North American events		58	68	(15%)
Average North American attendance		6,900	5,700	21%
Average North American ticket price (dollars)	\$	46.00	\$ 42.07	9%
Number of international events		26	17	53%
Average international attendance		6,000	7,500	(20%)
Average international ticket price (dollars)	\$	74.53	\$ 66.26	13%
Venue merchandise	\$	5.4	\$ 5.1	6%
Domestic per capita spending (dollars)	\$	12.76	\$ 11.67	9%
Pay-per-view	\$	39.8	\$ 38.1	4%
Number of pay-per-view events		5	5	-
Number of buys from pay-per-view events		2,104,000	2,227,000	(6%)
Average revenue per buy (dollars)	\$	18.92	\$ 17.11	11%
Domestic retail price (dollars)	\$	39.95	\$ 34.95*	14%
WWE 24/7	\$	1.3	\$ 0.7	86%
Television advertising	\$	1.3	\$ 1.8	(28%)
Television rights fees				
Domestic	\$	15.6	\$ 13.3	17%
International	\$	8.3	\$ 7.5	11%
Other	\$	1.1	\$ 1.0	10%
Total	\$	102.9	\$ 92.6	11%
Ratings				
Average weekly household ratings for Raw		3.8	4.2	(10%)
Average weekly household ratings for SmackDown		2.6	2.4	8%
Average weekly household ratings for ECW		1.6	2.5**	(36%)

*Includes two PPV events at \$34.95 and two events at \$39.95.

**Only 3 ECW episodes aired in the second quarter of 2006.

	June 30, 2007	June 30, 2006	better (worse)
Cost of Revenues-Live and Televised Entertainment			
Live events	\$ 21.4	\$ 17.8	(20%)
Venue merchandise	3.3	3.9	15%
Pay-per-view	24.4	20.4	(20%)
24/7	0.5	0.6	17%
Advertising	0.1	0.3	67%
Television	17.3	14.3	(21%)
Other	2.5	2.2	(14%)
Total	\$ 69.5	\$ 59.6	(17%)
Profit contribution margin	33%	36%	

Live events revenues increased primarily as a result of increased attendance at both our international and North American events. We held nine additional international events in the current quarter and the average international ticket price reflects a 13% increase in average ticket price. North American live event revenues increased by approximately \$2.1 million despite the production of ten fewer events. The primary drivers were the success of our WrestleMania 23 event in Detroit, which contributed approximately \$5.2 million in ticket sales, and increases in average attendance at our other live events. The profit contribution margin remained unchanged

at 28% in the current year quarter as compared to the prior year quarter.

Venue merchandise revenues reflected increases in venue sales at our international events and increased per capita spending of approximately 9% by our fans at our North American events. The decline in venue merchandise cost of revenues reflected the expiration of a consulting service agreement and lower material costs, resulting in the profit contribution margin increasing by 16% to 39% in the current quarter.

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Pay-per-view revenues increased by \$1.7 million in the current quarter based on the success of our WrestleMania event. The domestic retail price for our WrestleMania event was \$49.95 in both the current and prior year quarter. In addition, the domestic retail price of our other pay-per-view events was increased from \$34.95 to \$39.95 in June 2006. Pay-per-view buys for the five events that occurred in current quarter declined by approximately 6% as compared to the prior year quarter. This decline in buys was offset, in part, by the higher retail price. Pay-per-view costs of revenues increased in the current quarter, due in part to higher production costs and talent expense, resulting in a decline in profit contribution margin of approximately 10% to 38% in the current quarter.

WWE 24/7, our subscription based video-on-demand service, generated an 86% increase in revenues in the current quarter as the number of subscribers increased significantly. Currently, WWE 24/7 is offered in approximately 75% of video-on-demand enabled homes in the United States. We are currently preparing a marketing campaign for WWE 24/7 in our third quarter that will coincide with our Summer Slam pay-per-view event in August 2007.

The increase in domestic television rights fees was primarily due to the rights fees received for our ECW programming in the current quarter, which were only present for three weeks in the prior year quarter. The \$3.0 million increase in television cost of revenues is due to an overall increase in the costs incurred to produce televised events, partially due to additional direct costs associated with producing four television shows while touring internationally and for the production of our weekly ECW television program.

The following chart reflects comparative revenues and certain drivers for selected businesses within our Consumer Products segment:

June June
30, 30,