WORLD WRESTLING ENTERTAINMENTINC
Form 10-Q
August 08, 2011

Table of Contents

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, 2011

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 001-16131

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

Delaware	04-2693383
(State or other jurisdiction of incorporation or organization)	(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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes X No _____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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 August 4, 2011 the number of shares outstanding of the Registrant's Class A common stock, par value $.01 per share, was 27,927,286 and the number of shares outstanding of the Registrant's Class B common stock, par value $.01 per share, was 46,482,591.

Table of Contents

World Wrestling Entertainment, Inc.
Table of Contents

Table of Contents

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net revenues	$ 142,554	$ 106,842	$ 262,461	$ 245,567
Cost of revenues	88,829	63,094	162,076	136,779
Selling, general and administrative expenses	29,059	30,083	58,918	55,962
Depreciation and amortization	3,644	3,411	7,279	5,250
Operating income	21,022	10,254	34,188	47,576
Investment income, net	517	497	974	980
Interest expense	(45)	(67)	(95)	(138)
Other expense, net	(481)	(1,030)	(421)	(2,072)
Income before income taxes	21,013	9,654	34,646	46,346
Provision for income taxes	6,746	3,403	11,776	15,358
Net income	$ 14,267	$ 6,251	$ 22,870	$ 30,988
Weighted average common shares outstanding:				
Basic	74,058	74,303	74,047	74,267
Diluted	74,775	75,230	74,744	75,228
Earnings per share:				
Basic	$ 0.19	$ 0.08	$ 0.31	$ 0.42
Diluted	$ 0.19	$ 0.08	$ 0.31	$ 0.41

See Notes to Consolidated Financial Statements.

Table of Contents

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

	As of June 30, 2011	December 31, 2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 64,697	$ 69,823
Short-term investments	104,527	97,124
Accounts receivable, net	48,530	52,051
Inventory	1,856	2,087
Deferred income tax assets	16,816	17,128
Prepaid expenses and other current assets	13,468	20,856
Total current assets	249,894	259,069
PROPERTY AND EQUIPMENT, NET	79,046	80,995
FEATURE FILM PRODUCTION ASSETS, NET	47,119	56,253
INVESTMENT SECURITIES, NET	15,042	15,037
OTHER ASSETS	4,714	4,375
TOTAL ASSETS	$ 395,815	$ 415,729
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 1,214	$ 1,169
Accounts payable	16,286	18,441
Accrued expenses and other liabilities	28,568	24,478
Deferred income	17,008	28,323
Total current liabilities	63,076	72,411
LONG-TERM DEBT	1,002	1,621
NON-CURRENT INCOME TAX LIABILITIES	9,683	15,068
NON-CURRENT DEFERRED INCOME	9,058	9,881
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Class A common stock	276	275
Class B common stock	465	465
Additional paid-in capital	339,996	336,592
Accumulated other comprehensive income	3,531	3,144
Accumulated deficit	(31,272)	(23,728)
Total stockholders' equity	312,996	316,748
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 395,815	$ 415,729

See Notes to Consolidated Financial Statements.

3

Table of Contents

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

	Six Months Ended June 30, 2011	June 30, 2010
OPERATING ACTIVITIES:		
Net income	$ 22,870	$ 30,988
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of feature film production assets	15,681	2,507
Revaluation of warrants	-	(226)
Depreciation and amortization	7,279	5,250
Realized gains on sale of investments	(32)	(52)
Amortization of investment income	1,292	776
Stock compensation costs	2,552	4,957
Recovery from doubtful accounts	(508)	(606)
Provision for inventory obsolescence	977	961
Benefit from deferred income taxes	(5,507)	(5,484)
Excess tax benefits from stock-based payment arrangements	(20)	(193)
Changes in assets and liabilities:		
Accounts receivable	4,029	15,215
Inventory	(746)	(407)
Prepaid expenses and other assets	4,301	(6,015)
Feature film production assets	(6,556)	(15,610)
Accounts payable	(2,155)	(328)
Accrued expenses and other liabilities	8,000	(11,766)
Deferred income	(12,139)	4,982
Net cash provided by operating activities	39,318	24,949
INVESTING ACTIVITIES:		
Purchases of property and equipment and other assets	(6,780)	(6,686)
Proceeds from infrastructure incentives	-	4,130
Purchase of short-term investments	(29,823)	(63,003)
Proceeds from sales or maturities of investments	22,159	29,414
Net cash used in investing activities	(14,444)	(36,145)
FINANCING ACTIVITIES:		
Repayments of long-term debt	(573)	(532)
Dividends paid	(29,951)	(41,579)
Issuance of stock, net	504	508
Proceeds from exercise of stock options	-	598
Excess tax benefits from stock-based payment arrangements	20	193
Net cash used in financing activities	(30,000)	(40,812)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,126)	(52,008)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		69,823		149,784
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	64,697	$	97,776

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Common Stock Shares	Amount	Additional Paid - in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance, December 31, 2010	73,999	$ 740	$ 336,592	$ 3,144	$ (23,728)	$ 316,748
Comprehensive income:						
Net income					22,870	22,870
Translation adjustment				191		191
Unrealized holding gain, net of tax				216		216
Reclassification adjustment for gains realized in net income, net of tax				(20)		(20)
Total comprehensive income						23,257
Stock issuances, net	61	1	369			370
Excess tax benefits from stock based payment arrangements			20			20
Dividends paid			463		(30,414)	(29,951)
Stock compensation costs			2,552			2,552
Balance, June 30, 2011	74,060	$ 741	$ 339,996	$ 3,531	$ (31,272)	$ 312,996

See Notes to Consolidated Financial Statements.

Table of Contents

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(in thousands, except per share amounts)
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1. Basis of Presentation and Business Description

The accompanying consolidated financial statements include the accounts of WWE. "WWE" refers to World Wrestling Entertainment, Inc. and its subsidiaries, unless the context otherwise requires. References to "we," "us," "our" and the "Company" refer to WWE and its subsidiaries. We are an integrated media and entertainment company, principally engaged in the development, production and marketing of television and pay-per-view event programming and live events and the licensing and sale of consumer products featuring our brands. Our operations are organized around four principal activities:

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 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 sales of various broadband and mobile content.

WWE Studios

- Revenues consist of receipts from the distribution of filmed entertainment.

All intercompany balances are eliminated in consolidation. 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 year ended December 31, 2010.

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard update regarding revenue recognition for multiple deliverable arrangements. This update requires the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. We adopted this standard update for our fiscal year beginning January 1, 2011 prospectively for revenue arrangements entered into or materially modified after the date of adoption. The adoption of this accounting standard update did not have a material effect on our consolidated financial statements.

In May 2011, the FASB issued an accounting standard update to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. This update changes certain fair value measurement principles and enhances the disclosure requirements, particularly for Level 3 fair value measurements. This update is effective for our fiscal year beginning January 1, 2012 and must be applied prospectively. We are currently evaluating the impact of the adoption of this accounting standard update on our consolidated financial statements.

In June 2011, the FASB issued an accounting standard update which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This update eliminates the option to present the components of other comprehensive income as part of the statement of equity. The items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income were not changed. Additionally, no changes were made to the calculation and presentation of earnings per share. This update is effective for our fiscal year beginning January 1, 2012 and must be applied retrospectively and will impact the presentation of the Company's consolidated financial statements.

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(in thousands, except per share amounts)
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2. Share Based Compensation

Compensation expense relating to grants of performance stock units (PSUs) and restricted stock units (RSUs) are recognized over the period during which the employee rendered service to the Company necessary to earn the award. Stock based compensation cost was $1,523 and $2,642 for the three months ended June 30, 2011 and 2010, respectively, and $2,537 and $4,930 for the six months ended June 30, 2011 and 2010, respectively.

During the six months ended June 30, 2011, we granted 523,500 PSUs under our 2007 Omnibus Incentive Plan (“Plan”) at a price per share of $12.35. This grant is subject to the Company achieving established earnings targets for the financial results of the year ending December 31, 2011. If these targets are met, the shares issued will vest in equal annual installments. During the three months ended June 30, 2011 we adjusted the compensation costs related to this grant based upon expected full-year earnings performance. Total compensation cost of $2,754 related to these PSUs is being recorded based on the Company's estimated level of achieving targeted earnings, and based on the estimated fair value of the units on the issuance date, net of estimated forfeitures. The compensation is being amortized over the service period, which is approximately three and one-half years.

During 2010, we granted 422,250 PSUs under our Plan at a price per share of $17.01. Based on the financial results for the year ended December 31, 2010, approximately 279,000 PSUs were ultimately issued in 2011 related to this grant at an average price per share of $12.13.

At June 30, 2011, an aggregate of 1,419,061 PSUs were unvested for all PSU grants with a weighted average fair value of $13.45 per share. At June 30, 2010, an aggregate of 1,531,993 PSUs were unvested for all PSU grants with a weighted average fair value of $15.50 per share.

During the six months ended June 30, 2011, we granted 27,500 RSUs under the Plan at a weighted average grant date fair value of $13.91 per share. Total compensation cost related to these grants, net of estimated forfeitures, is $352. During the six months ended June 30, 2010, we granted 4,500 RSUs under the Plan at a weighted average grant date fair value of $16.60 per share. Total compensation cost related to these grants, net of estimated forfeitures, is $69. The compensation is being amortized over the service period, which is approximately three years.

At June 30, 2011, 98,174 RSUs were unvested with a weighted average fair value of $13.78 per share. At June 30, 2010, 166,097 RSUs were unvested with a weighted average fair value of $14.39 per share.

3. Stockholders’ Equity

Dividends

In April 2011, the Board of Directors adjusted the Company's quarterly dividend to $0.12 per share on all Class A and Class B shares, and on June 27, 2011, the Company paid a quarterly dividend, of $0.12 per share of common stock. All Class A and Class B shares received dividends in the amount of $0.12.

From February 2008 until April 2011, the Board of Directors authorized quarterly cash dividends of $0.36 per share on all Class A common shares. The quarterly dividend on all Class A and Class B shares held by members of the McMahon family and their respective trusts remained at $0.24 per share for a period of three years due to a waiver received from the McMahon family. This waiver expired after the declaration of the March 2011 dividend.

We paid cash dividends of $8,889 and $20,872 for the three month ended June 30, 2011 and 2010, respectively. We paid cash dividends of $29,951 and $41,579 for the six months ended June 30, 2011 and 2010, respectively.

Table of Contents

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
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Comprehensive Income

The following table presents the comprehensive income for the current and prior year periods:

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net income	$ 14,267	$ 6,251	$ 22,870	$ 30,988
Translation adjustment	40	(194)	191	(186)
Unrealized holding gain, net of tax	178	646	216	559
Reclassification adjustment for gains realized in net income, net of tax	(20)	-	(20)	(32)
Total comprehensive income	$ 14,465	$ 6,703	$ 23,257	$ 31,329

4. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Numerator:				
Net income	$ 14,267	$ 6,251	$ 22,870	$ 30,988
Denominator:				
Weighted Average Shares Outstanding:				
Basic	74,058	74,303	74,047	74,267
Diluted	74,775	75,230	74,744	75,228
Earnings Per Share:				
Basic	$ 0.19	$ 0.08	$ 0.31	$ 0.42
Diluted	$ 0.19	$ 0.08	$ 0.31	$ 0.41

Net income per share of Class A Common Stock and Class B Common Stock is computed in accordance with the two- class method of earnings allocation. As such, any undistributed earnings for each period are allocated to each class of common stock based on the proportionate share of cash dividends that each class is entitled to receive.

The Company did not compute earnings per share using the two-class method for the three months ended June 30, 2011 despite having undistributed earning during this quarter as all classes of common stock received dividends at the same rate. The Company did not compute earnings per share using the two-class method for the three months ended June 30, 2010 as there were no undistributed earnings during this quarter.

The Company did not compute earnings per share using the two-class method for the six months ended June 30, 2011 and 2010 as there were no undistributed earnings during these periods.

5. Segment Information

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. Revenues derived from sales outside of North America were $39,729 and $69,835 for the three and six months ended June 30, 2011, respectively, and $36,244 and $68,026 for the three and six months ended June 30, 2010, respectively. Revenues generated in the United Kingdom, our largest international market, were $11,357 and $18,037 for the three and six months ended June 30, 2011, respectively, and $9,267 and $17,225 for the three and six months ended June 30, 2010, respectively. Unallocated assets consist primarily of cash, short-term investments, real property and other investments.

Table of Contents

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net revenues:				
Live and Televised Entertainment	$ 110,603	$ 77,419	$ 180,938	$ 175,642
Consumer Products	21,590	23,244	56,428	53,990
Digital Media	6,122	5,433	12,251	11,830
WWE Studios	4,239	746	12,844	4,105
Total net revenues	$ 142,554	$ 106,842	$ 262,461	$ 245,567

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Depreciation and amortization:				
Live and Televised Entertainment	$ 1,878	$ 1,761	$ 3,729	$ 2,059
Consumer Products	112	56	234	118
Digital Media	318	298	633	584
WWE Studios	2	-	5	-
Corporate	1,334	1,296	2,678	2,489
Total depreciation and amortization	$ 3,644	$ 3,411	$ 7,279	$ 5,250
Operating income:				
Live and Televised Entertainment	$ 44,301	$ 25,326	$ 67,224	$ 64,533
Consumer Products	10,432	11,470	30,820	28,806
Digital Media	1,374	150	2,095	1,136
WWE Studios	(4,256)	(940)	(8,367)	486
Corporate	(30,829)	(25,752)	(57,584)	(47,385)
Total operating income	$ 21,022	$ 10,254	$ 34,188	$ 47,576

	As of June 30, 2011	December 31, 2010
Assets:		
Live and Televised Entertainment	$ 127,804	$ 129,970
Consumer Products	20,464	17,095
Digital Media	3,896	5,849
WWE Studios	73,799	77,977
Unallocated	169,852	184,838
Total assets	$ 395,815	$ 415,729

Table of Contents

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(in thousands, except per share amounts)
(unaudited)

6. Property and Equipment

Property and equipment consisted of the following:

	As of June 30, 2011	December 31, 2010
Land, buildings and improvements	$ 76,719	$ 75,762
Equipment	73,919	70,694
Corporate aircraft	20,858	20,858
Vehicles	1,570	1,543
	173,066	168,857
Less accumulated depreciation and amortization	(94,020)	(87,862)
Total	$ 79,046	$ 80,995

Depreciation and amortization expense for property and equipment totaled $3,531 and $7,045 for the three and six months ended June 30, 2011, respectively, as compared to $3,356 and $5,132 for the three and six months ended June 30, 2010, respectively. Depreciation expense in the prior year reflected a one-time benefit of $1,674, which was recorded in the three months ended March 31, 2010, from the recognition of an infrastructure tax credit. The credit was used to reduce the carrying value of the assets as of their in service date and consequently the adjustment to depreciation expense reflected the revised amount incurred to date.

7. Feature Film Production Assets

Feature film production assets are summarized as follows:

	As of June 30, 2011	December 31, 2010
Feature film productions:		
In release	$ 22,490	$ 27,368
Completed but not released	21,456	27,612
In production	1,543	-
In development	1,630	1,273
Total	$ 47,119	$ 56,253

In the current year we released two theatrical films, The Chaperone and That's What I Am, whichcomprise $3,303 and $450 of our "In release" feature film assets, respectively. Both of these films were released under our self distribution model in which we control the distribution and marketing of our productions. The distribution and marketing of our films under our previous model was controlled by our third-party distribution partners and we participated in proceeds after our third-party distribution partners recouped their expenses and distribution fees and their results were reported to us. Under our new distribution model, we record revenues and expenses on a gross basis in our financial statements. Additionally, under our new model the Company records distribution expenses, including advertising and other exploitation costs, in our financial statements as incurred.

Table of Contents

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(in thousands, except per share amounts)
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Feature film production assets are recorded net of the associated benefit of production incentives. During the three months ended June 30, 2011 and 2010 we realized $2,862 and $0, respectively of production incentives from feature film production activities. During the six months ended June 30, 2011 and 2010 we realized $5,989 and $0, respectively, of production incentives from feature film production activities.

Unamortized feature film production assets are evaluated for impairment each reporting period. If conditions indicate a potential impairment, and 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, 2011 and 2010, we recorded impairment charges of $3,250 and $0, respectively. The impairment charge recorded during the three months ended June 30, 2011 related to our feature film That's What I Am. During the six months ended June 30, 2011 and 2010, we recorded impairment charges of $6,050 and $0, respectively, of which $2,800 relates to 12 Rounds and $3,250 relates to That's What I Am. As of June 30, 2011, we do not believe any capitalized assets included in Feature Film Production Assets are impaired.

Approximately 59% of "In release" film production assets are estimated to be amortized over the next 12 months and approximately 93% of "In release" film production assets are estimated to be amortized over the next three years.

We currently have four theatrical films designated as "Completed but not released" and one theatrical film designated as "In-production". We also have capitalized certain script development costs for various other film projects. Capitalized script development costs are evaluated at each reporting period for impairment if, and when, a project is deemed to be abandoned. During the three and six months ended June 30, 2011, we expensed $45 and $80, respectively of previously capitalized development costs related to abandoned projects. During the three and six months ended June 30, 2010, we expensed $300 of development costs related to abandoned projects.

8. Investment Securities and Short-Term Investments

Investment securities and short-term investments consisted of the following:

	As of June 30, 2011			As of December 31, 2010		
	Amortized Cost	Unrealized Holding Gain (Loss)	Fair Value	Amortized Cost	Unrealized Holding Gain (Loss)	Fair Value
Auction rate securities	$ 16,000	$ (958)	$ 15,042	$ 16,000	$ (963)	$ 15,037
Municipal bonds	93,050	592	93,642	74,766	339	75,105
Corporate bonds	10,823	62	10,885	22,015	4	22,019
Total	$ 119,873	$ (304)	$ 119,569	$ 112,781	$ (620)	$ 112,161

Table of Contents

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
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We classify all of our investments as available-for-sale securities. Such investments consist primarily of municipal bonds, including pre-refunded municipal bonds, corporate bonds and auction rate securities ("ARS"). All of these investments are stated at fair value, with unrealized gains and losses on such securities reflected, net of tax, as other comprehensive income (loss) in stockholders' equity. Realized gains and losses on investments are included in earnings and are derived using the specific identification method for determining the cost of securities sold. As of June 30, 2011 contractual maturities of these investments are as follows:

	Maturities
Auction rate securities	27-30 years
Municipal bonds	1 month-12 years
Corporate bonds	1-5 years

During the six months ended June 30, 2011 and 2010, available-for-sale securities were sold for total proceeds of $2,652 and $2,478, respectively. The gross realized gains on these sales totaled $33 and $52 in the current and prior year period, respectively. There were no gross realized losses on these sales in the current or prior year period. Net unrealized holding losses on available-for-sale securities in the amount of $348 and $902 for the six months ended June 30, 2011 and 2010, respectively, have been included in accumulated other comprehensive income.

All of our ARS are collateralized by student loan portfolios (substantially all of which are guaranteed by the United States Government). The securities for which the auctions have failed will continue to accrue interest and pay interest when due; to-date, none of the ARS in which we are invested has failed to make an interest payment when due. Our ARS will continue to be auctioned at each respective reset date until the auction succeeds, the issuer redeems the securities or they mature (the stated maturities of the securities are greater than 20 years). As we maintain a strong liquidity position, we have no intent to sell the securities. We believe that it is not more likely than not that we will be required to sell the securities before recovery of their anticipated amortized cost basis.

As of June 30, 2011, we recorded a cumulative adjustment to reduce the fair value of our investment in ARS of $958, which is reflected as part of accumulated other comprehensive income in our Consolidated Statement of Stockholders' Equity and Comprehensive Income. We do not feel that the fair value adjustment is other-than-temporary at this time due to the high underlying creditworthiness of the issuer (including the backing of the loans comprising the collateral package by the United States Government), our intent not to sell the securities and our belief that it is not more likely than not that we will be required to sell the securities before recovery of their anticipated amortized cost basis.

9. Fair Value Measurement

Fair value is determined based on the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement based on assumptions that "market participants" would use to price the asset or liability. Accordingly, the framework considers markets or observable inputs as the preferred source of value followed by assumptions based on hypothetical transactions, in the absence of market inputs. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of assets and liabilities should include consideration of non-performance risk including the Company's own credit risk.

Table of Contents

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(in thousands, except per share amounts)
(unaudited)

Additionally, the guidance establishes a three-level hierarchy that ranks the quality and reliability of information used in developing fair value estimates. The hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. In cases where two or more levels of inputs are used to determine fair value, a financial instrument's level is determined based on the lowest level input that is considered significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are summarized as follows:

Level 1- quoted prices in active markets for identical assets or liabilities;

Level 2- quoted prices in active markets for similar assets and liabilities and inputs that are observable for the asset or liability; or

Level 3- unobservable inputs, such as discounted cash flow models or valuations

The following assets are required to be measured at fair value on a recurring basis and the classification within the hierarchy as of June 30, 2011 and December 31, 2010, respectively, was as follows:

	Fair Value at June 30, 2011				Fair Value at December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Municipal bonds	$ 93,642	$ -	$ 93,642	$ -	$ 75,105	$ -	$ 75,105	$ -
Auction rate securities	15,042	-	-	15,042	15,037	-	-	15,037
Corporate bonds	10,885	-	10,885	-	22,019	-	22,019	-
Other	-	-	-	-	687	-	687	-
Total	$ 119,569	$ -	$ 104,527	$ 15,042	$ 112,848	$ -	$ 97,811	$ 15,037

Certain financial instruments are carried at cost on the consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. The carrying amounts of cash, cash equivalents, money market accounts, accounts receivable and accounts payable approximate fair value because of the short-term nature of such instruments. Our short-term investments are carried at fair value.

We have classified our investment in municipal bonds, corporate bonds and warrants within Level 2 as their valuation requires quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and/or model-based valuation techniques for which all significant inputs are observable in the market or can be corroborated by observable market data. The corporate and municipal bonds are valued based on model-driven valuations whereby market prices from a variety of industry standard data providers, security master files from large financial institutions and other third-party sources are used as inputs to an algorithm. The estimated fair value of our warrants was determined using the Black-Scholes model.

We have classified our investment in ARS within Level 3 as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities. WWE utilizes a pricing service to assist management in obtaining fair value pricing of this investment portfolio. The fair value of the ARS, as consistent with prior periods, was estimated through discounted cash flow models, which consider, among other things, the timing of expected future successful auctions, collateralization of underlying security investments and the risk of default by the issuer. We will continue to assess the carrying value of our ARS on each reporting date, based on the facts and circumstances surrounding our liquidity needs and developments in the ARS markets.

Table of Contents

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(in thousands, except per share amounts)
(unaudited)

The table below includes a roll forward of our Level 3 assets (ARS):

	Significant Unobservable Inputs (Level 3)		Significant Unobservable Inputs (Level 3)
Fair value January 1, 2011	$ 15,037	Fair value January 1, 2010	$ 22,370
Purchases	-	Purchases	-
Redemptions/Proceeds	-	Redemptions/Proceeds	(8,400)
Transfers in	-	Transfers in	-
Realized gain	-	Realized gain	-
Unrealized gain	5	Unrealized gain	757
Fair value June 30, 2011	$ 15,042	Fair value June 30, 2010	$ 14,727

The Company also has assets that are required to be measured at fair value on a non-recurring basis if it is determined that indicators of impairment exist. During the six months ended June 30, 2011, the fair value measurements recorded for impaired feature films 12 Rounds and That's What I Am are $10,700 and $450, respectively. There were no fair value measurements recorded on a non-recurring basis for the six months ended June 30, 2010. The Company classifies these assets as Level 3 within the fair value hierarchy due to significant unobservable inputs. The Company utilizes a discounted cash flows model to determine the fair value of these impaired films where indicators of impairment exist. The inputs to this model are the Company's expected results for the film and a discount rate that market participants would seek for bearing the risk associated with such assets.

10. Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following:

	As of June 30, 2011	December 31, 2010
Accrued pay-per-view event costs	$ 7,660	$ 3,580
Accrued payroll and bonus related costs	5,960	6,635
Accrued television costs	4,331	3,500
Accrued home video production and distribution	2,190	2,659
Accrued income taxes (1)	2,999	-
Accrued other	5,428	8,104
Total	$ 28,568	$ 24,478

(1) At December 31, 2010, income taxes had a refundable balance of $3,510 and was included in Prepaid expenses and other current assets on our Consolidated Balance Sheet.

Accrued other includes accruals for our publishing, legal and professional, and licensing business activities, none of which exceeds 5% of current liabilities.

Table of Contents

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(in thousands, except per share amounts)
(unaudited)

11. Concentration of Credit Risk

We continually monitor our position with, and the credit quality of, the financial institutions that are counterparties to our financial instruments. Our accounts receivable represent a significant portion of our current assets and relate principally to a limited number of distributors, including our television, pay-per-view and home video distributors. The Company closely monitors the status of receivables with our customers and maintains allowances for anticipated losses as deemed appropriate. Our total allowance for doubtful accounts balance was $11,753 as of June 30, 2011 and $12,316 as of December 31, 2010. Recovery from bad debts was $508 for the six months ended June 30, 2011, as compared to $606 for the six months ended June 30, 2010; these recoveries were the result of payments received from customers with balances anticipated as uncollectable at year-end. Bad debts expense was $69 for the three months ended June 30, 2011, as compared to $883 for the three months ended June 30, 2010.

12. Film and Television Production Incentives

The Company has access to various governmental programs that are designed to promote film and television production within the United States and certain international jurisdictions. Incentives earned with respect to expenditures on qualifying film, television and other production activities, including qualifying capital projects, are included as an offset to the related asset or as an offset to production expenses when we have reasonable assurance regarding the realizable amount of the incentives. During the three months ended June 30, 2011 and 2010 we received $2,862 and $0, respectively relating to feature film productions which reduced the related assets. During the six months ended June 30, 2011 and 2010 we received $5,989 and $0, respectively of incentives relating to feature film productions which reduced the related assets. During the three and six months ended June 30, 2010 we received $0 and $4,202, respectively relating to qualifying capital projects, which reduced the related assets. We did not receive similar incentives during the three and six months ended June 30, 2011.

13. Income Taxes

At June 30, 2011, we have $10,663 of unrecognized tax benefits, which if recognized, would affect our effective tax rate. Of this amount, $5,602 is classified in accrued expenses and other liabilities and the remaining $5,061 is classified in non-current income tax liabilities. At June 30, 2010, we had $9,456 of unrecognized tax benefits. Of this amount, $246 was classified in accrued expenses and other liabilities and the remaining $9,210 was classified in non-current income tax liabilities.

We recognize potential accrued interest and penalties related to uncertain tax positions in income tax expense. We have $2,558 of accrued interest and penalties related to uncertain tax positions as of June 30, 2011. Of this amount, $1,472 is classified in accrued expenses and other liabilities and the remaining $1,086 is classified in non-current income tax liabilities. At June 30, 2010, we had $2,036 of accrued interest and penalties related to uncertain tax positions. Of this amount, $48 was classified in accrued expenses and other liabilities and the remaining $1,988 was classified in non-current income tax liabilities.

We file income tax returns in the United States, 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, 2006.

Based upon the expiration of statutes of limitations and possible settlements in several jurisdictions, we believe it is reasonably possible that the total amount of previously unrecognized tax benefits may decrease by approximately $8,497 within 12 months of June 30, 2011.

Table of Contents

World Wrestling Entertainment, Inc.
Notes to Consolidated Financial Statements
(in thousands, except per share amounts)
(unaudited)

14. 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 Annual Report on Form 10-K for the year ended December 31, 2010.

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 Annual Report on Form 10-K for the year ended December 31, 2010.

Other Matters

We are not currently a party to any other material legal proceedings. However, we are involved in several other suits and claims in the ordinary course of business, the outcome of which is not expected to have a material adverse effect on our financial condition, results of operations or liquidity. We may from time to time become a party to other legal proceedings.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Background

The following analysis outlines all material activities contained within each of our business 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 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 sales of various broadband and mobile content.

WWE Studios

- Revenues consist of receipts from the distribution of filmed entertainment.

Table of Contents

Results of Operations

Three Months Ended June 30, 2011 compared to Three Months Ended June 30, 2010
(Dollars in millions, except as noted)

Summary

Net Revenues	June 30, 2011	June 30, 2010	better (worse)
Live and Televised Entertainment	$ 110.5	$ 77.4	43%
Consumer Products	21.6	23.3	(7%)
Digital Media	6.2	5.4	15%
WWE Studios	4.3	0.7	514%
Total	$ 142.6	$ 106.8	34%

Cost of Revenues:	June 30, 2011	June 30, 2010	better (worse)
Live and Televised Entertainment	$ 66.5	$ 48.1	(38%)
Consumer Products	9.6	10.4	8%
Digital Media	4.4	3.4	(29%)
WWE Studios	8.4	1.2	(600 %)
Total	$ 88.9	$ 63.1	(41%)
Profit contribution margin	38%	41%	

Operating Income:	June 30, 2011	June 30, 2010	better (worse)
Live and Televised Entertainment	$ 44.3	$ 25.3	75%
Consumer Products	10.4	11.5	(10%)
Digital Media	1.4	0.2	600%
WWE Studios	(4.3)	(0.9)	(378%)
Corporate	(30.8)	(25.8)	(19%)
Total operating income	$ 21.0	$ 10.3	104%
Net income	$ 14.3	$ 6.3	127%

Our comparative results were significantly impacted by the timing of our annual WrestleMania event. In 2011, WrestleMania XXVII occurred on April 3rd and consequently is included in our second quarter financial results. In 2010, WrestleMania XXVI occurred on March 28th, and was included in our first quarter financial results. WrestleMania XXVII contributed $35.9 million of revenues and $16.7 million of profit ($11.4 million, net of tax) to our results in the current quarter.

The comparability of our results was also impacted by our WWE Studios' business change to a self-distribution model starting in the third quarter of 2010. Under this model, we recognize revenues and expenses for our films on a gross basis upon release. During the current quarter we released our fourth film under this self-distribution model, That's What I Am (TWIA). We previously released six films that were distributed by third-party distribution partners whereby we participated in revenues after their recoupment of distribution expenses and fees and the results have been reported to us. As a result, the revenue and related expenses were recorded on a net basis after the distributors' recoupment, which typically occurred in periods subsequent to the film's initial release. In the current quarter, we recorded $2.3 million in revenue and $6.6 million in cost of revenue related to our self-distributed films. Included in the cost of revenue is $4.7 million of amortization of production costs and $1.9 million of distribution-related expenses.

Table of Contents

In addition, the comparability of our results was also impacted by a $3.3 million impairment charge recorded during the quarter relating to TWIA, our current quarter release.

Our Live and Televised Entertainment segment revenues increased primarily due to a $35.4 million timing difference for our annual WrestleMania event discussed previously. Our Consumer Products segment experienced a 38% increase in licensing revenue, reflecting increases in sales in our video game