WORLD WRESTLING ENTERTAINMENTINC
Form 10-Q
November 10, 2008

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 September 30, 2008

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	**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 Registrants 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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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 October 28, 2008 the number of shares outstanding of the Registrant s Class A common stock, par value $.01 per share, was 25,073,992 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		Nine Months Ended	
	September 30,	**September 30,**	**September 30,**	**September 30,**

	2008	2007	2008	2007
Net revenues	$ 108,782	$ 108,110	$ 401,072	$ 353,012
Cost of revenues	66,279	63,438	242,655	222,059
Selling, general and administrative expenses	31,263	28,917	101,884	80,286
Depreciation and amortization	3,330	2,368	9,521	6,972
Operating income	7,910	13,387	47,012	43,695
Investment income, net	1,290	1,766	4,511	5,745
Interest expense	(110)	(119)	(324)	(353)
Other expense, net	(1,356)	(841)	(3,649)	(495)
Income before income taxes	7,734	14,193	47,550	48,592
Provision for income taxes	2,460	5,744	15,720	17,959
Net income	$ 5,274	$ 8,449	$ 31,830	$ 30,633
Earnings per share Basic				
Net income	$ 0.07	$ 0.12	$ 0.44	$ 0.43
Earnings per share Diluted				
Net income	$ 0.07	$ 0.12	$ 0.43	$ 0.42
Weighted average common shares outstanding:				
Basic	73,191	71,949	72,725	71,445
Diluted	73,735	72,469	73,469	72,211

See Notes to Consolidated Financial Statements.

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

	As of September 30, 2008	As of December 31, 2007
CURRENT ASSETS:		
Cash and equivalents	$ 119,091	$ 135,805
Short-term investments	56,772	130,548
Accounts receivable, net	68,594	56,597
Inventory, net	6,122	4,717
Prepaid expenses and other current assets	33,579	20,053
Total current assets	284,158	347,720
PROPERTY AND EQUIPMENT, NET	88,871	77,771
FEATURE FILM PRODUCTION ASSETS	32,148	21,890
INVESTMENT SECURITIES	33,338	-
INTANGIBLE ASSETS, NET	1,484	2,302

OTHER ASSETS		10,781		20,373
TOTAL ASSETS	$	450,780	$	470,056
CURRENT LIABILITIES:				
Current portion of long-term debt	$	983	$	927
Accounts payable		20,081		21,951
Accrued expenses and other liabilities		31,205		30,684
Deferred income		19,726		18,012
Total current liabilities		71,995		71,574
LONG-TERM DEBT		4,130		4,875
NON-CURRENT TAX LIABILITY		6,754		10,227
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY:				
Class A common stock		251		241
Class B common stock		477		477
Additional paid-in capital		316,982		301,329
Accumulated other comprehensive income		2,065		2,894
Retained earnings		48,126		78,439
Total stockholders' equity		367,901		383,380
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	450,780	$	470,056

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended			
		September 30, 2008		**September 30, 2007**
OPERATING ACTIVITIES:				
Net income	$	31,830	$	30,633
Adjustments to reconcile net income to net cash provided by operating activities:				
Amortization/write-off of feature film production assets		13,220		25,851
Revaluation of warrants		2,198		727
Depreciation and amortization		9,521		6,972
Realized loss on sale of investments		348		1,580
Amortization of investment income		384		(370)
Stock compensation costs		7,953		6,442
Provision for doubtful accounts		179		(603)
Provision for inventory obsolescence		2,316		1,200
Reimbursement of operating expenses by principal shareholder		1,950		-
Benefit from deferred income taxes		(1,010)		(3,011)
Excess tax benefits from stock-based payment arrangements		(1,091)		(824)
Changes in assets and liabilities:				

Accounts receivable	(12,177)	2,378
Inventory	(3,721)	(2,824)
Prepaid expenses and other assets	(3,138)	5,819
Feature film production assets	(24,742)	(1,440)
Accounts payable	(1,870)	478
Accrued expenses and other liabilities	(6,539)	426
Deferred income	2,084	(375)
Net cash provided by operating activities	17,695	73,059
INVESTING ACTIVITIES:		
Purchases of property and equipment	(19,591)	(7,989)
Purchase of film library assets	(212)	(301)
Purchase of short-term investments	(104,736)	(144,977)
Proceeds from sales or maturities of short-term investments	143,634	105,475
Net cash provided by (used in) investing activities	19,095	(47,792)
FINANCING ACTIVITIES:		
Repayments of long-term debt	(688)	(638)
Dividends paid	(60,929)	(51,436)
Issuance of stock, net	771	807
Proceeds from exercise of stock options	6,251	5,968
Excess tax benefits from stock-based payment arrangements	1,091	824
Net cash used in financing activities	(53,504)	(44,475)
NET DECREASE IN CASH AND EQUIVALENTS	(16,714)	(19,208)
CASH AND EQUIVALENTS, BEGINNING OF PERIOD	135,805	86,267
CASH AND EQUIVALENTS, END OF PERIOD	$ 119,091	$ 67,059

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		Additional Paid - in	Accumulated Other Comprehensive	Retained	
	Shares	Amount	Capital	Income	Earnings	Total
Balance, December 31, 2007	71,788	$ 718	$ 301,329	$ 2,894	$ 78,439	$ 383,380
Comprehensive income:						
Net income					31,830	31,830
Translation adjustment				(570)		(570)
Unrealized holding loss, net of tax				(475)		(475)
Reclassification adjustment for losses realized in net income, net of tax				216		216
Total comprehensive income						31,001

Stock issuances, net	463	5	(2,801)			(2,796)
Exercise of stock options	516	5	6,246			6,251
Excess tax benefits from stock based payment arrangements			1,091			1,091
Dividends paid			1,214		(62,143)	(60,929)
Stock compensation costs			7,953			7,953
Capital contribution from principal shareholder			1,950			1,950
Balance, September 30, 2008	72,767	$ 728	$ 316,982	$ 2,065	$ 48,126	$ 367,901

See Notes to Consolidated Financial Statements.

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 Studios (formerly WWE Films)

- Revenues consist of our share of receipts from the distribution of filmed entertainment featuring our Superstars. We participate in revenues generated under the distribution of the films through all media after the print and advertising and distribution costs incurred by our distributors have been recouped and the results have been reported to us.

All intercompany balances have been 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.

(dollars in thousands)

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, 2007.

Recent Accounting Pronouncements

Effective January 1, 2008, we adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements, or SFAS 157, which establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS 157 also requires disclosure about how fair value is determined for assets and liabilities and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs 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 determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following assets are required to be measured at fair value on a recurring basis and the classification within the hierarchy as of September 30, 2008:

	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2008
Municipal bonds	$ -	$ 56,643	$ -	$ 56,643
Auction rate securities	-	-	33,338	33,338
Other	129	1,959	-	2,088
Total	$ 129	$ 58,602	$ 33,338	$ 92,069

Certain financial instruments are carried at cost on the consolidated balance sheets, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and equivalents, accounts receivable, prepaid expenses, accounts payable and accrued expenses.

We have classified our investment in auction rate securities (ARS) within Level 3. Starting in February 2008, we experienced difficulty selling our investment in ARS due to multiple failures of the auction mechanism that provides liquidity to these investments. The securities have been classified 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, which continues as of September 30, 2008.

(dollars in thousands)

The table below includes a roll forward of our investments in ARS from January 1, 2008 to September 30, 2008, and a reclassification of these investments from Level 2 to Level 3 in the valuation hierarchy.

	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fair Value January 1, 2008	$ 77,335	$ -
Purchases	46,780	-
Sales	(89,765)	-
Transfers (out) in	(34,350)	34,350
Unrealized (losses)	-	(1,012)
Total	$ -	$ 33,338

In February 2007, the Financial Accounting Standards Board (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 as of January 1, 2008, but we did not elect to measure any additional financial instruments at fair value as a result of this statement. Therefore, the adoption of SFAS 159 has not had an impact on our Consolidated Financial Statements.

In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, Effective Date of FASB Statement No. 157. FSP No. 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of 2009. We are currently evaluating the impact that FSP No. 157-2 will have on our Consolidated Financial Statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. The FSP states that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are considered participating securities as defined in EITF 03-6 and therefore should be included in the computation of earnings per share under the two-class method. This FSP is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. We are currently evaluating the impact the adoption of this FSP 03-6-1 will have on our Consolidated Financial Statements.

In October 2008, the FASB issued FASB Staff Position (FSP) 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, which clarifies application of SFAS No. 157 in a market that is not active. FSP 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP 157-3 did not have a material impact on our Consolidated Financial Statements.

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 (RSU) 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 $2,220 and $2,199 for the three months ended September 30, 2008 and 2007, respectively, and $7,953 and $6,442 for the nine months ended September 30, 2008 and 2007, respectively. We have not issued options since June 2004.

During the nine months ended September 30, 2008, we granted 50,000 RSUs as part of our 2007 Omnibus Incentive Plan at a weighted average grant date fair value of $18.48 per share. Total compensation cost related to these grants, net of estimated forfeitures, is $850. The compensation is being amortized over the service period, which is approximately three years. At September 30, 2008, 396,461 RSUs were unvested with a weighted average fair value of $16.08 per share.

In July 2007, we began issuing performance stock units, (PSU) in addition to RSUs. The July 2007 issuance of approximately 475,000 PSUs was subject to performance goals established for the last two quarters of 2007. As these goals were exceeded, 585,000 of these units were ultimately issued in 2008 which vest in three equal annual installments that began in July 2008. Total compensation cost related to the PSUs, net of estimated forfeitures is $8,766 and is being amortized over the service period, which is approximately three and one-half years.

During the nine months ended September 30, 2008, we issued approximately 471,500 PSUs as part of our 2007 Omnibus Incentive Plan. Total compensation cost related to these PSUs, based on the estimated value of the units expected to be granted as of September 30, 2008, net of estimated forfeitures, is $5,368. This issuance is subject to the Company achieving established earnings targets for the year ending December 31, 2008. The compensation is being amortized over the service period, which is approximately three and one-half years. If these goals are met, the units on the performance date will vest in three equal annual installments. At September 30, 2008, there are 849,343 PSUs unvested with an average fair value of $17.58 per share.

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

3. Stockholders Equity

In February 2008, the Board of Directors authorized an increase in the quarterly cash dividend to $0.36 per share on all Class A common shares not held by the McMahon family. The quarterly dividend on all Class B shares, held by members of the McMahon family and their respective trusts, will remain at $0.24 per for a period of three years, through February 2011. Accordingly, we paid cash dividends of $60,929 in the aggregate for the year through September 2008. In the prior year, we paid quarterly dividends of $0.24, or $51,436 on all Class A and Class B common shares for the nine months ended September 30, 2007.

In June 2008, the Company performed a brand awareness campaign entitled McMahons Million Dollar Mania, whereby a total of $3,000 in cash prize awards was given away to viewers of our Monday Night Raw television program. The prize money for this campaign was personally funded by the Chairman of WWE, Vincent K. McMahon. As such, the Company received a capital contribution of $1,950, representing the net of tax impact to WWE for the prize money awarded to the selected contestants.

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		**Nine months ended**	
	September 30, 2008	**September 30, 2007**	**September 30, 2008**	**September 30, 2007**
Basic	73,191,865	71,948,679	72,724,661	71,445,334
Diluted	73,735,389	72,468,619	73,468,538	72,210,936

Dilutive effect of outstanding options and restricted stock units	543,524	519,940	743,876	765,524
Anti-dilutive outstanding options	157,000	174,400	157,000	174,400

Net income or loss per share of Class A Common Stock and Class B Common Stock is computed in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings per Share* (SFAS No. 128) using the two-class method. As such, and in accordance with Emerging Issues Task Force 03-06*, Participating Securities and the Two-Class Method under FASB Statement No. 128* (EITF 03-06), any undistributed earnings for each period are allocated to each class of common stock based on the proportionate share of the amount of cash dividends that each class is entitled to receive. As there were no undistributed earnings for the three and nine months ended September 30, 2008, basic and diluted income per share was the same for both the Class A and Class B shareholders.

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

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. There are no inter-segment revenues. Revenues derived from sales outside of North America were approximately $25,694 and $102,727 for the three and nine months ended September 30, 2008, respectively, and $23,728 and $81,197 for the three and nine months ended September 30, 2007, respectively. Unallocated assets consist primarily of cash, short-term investments, real property and other investments.

	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net revenues:				
Live and Televised Entertainment	$ 68,654	$ 68,566	$ 255,275	$ 234,495
Consumer Products	26,536	18,962	102,361	82,808
Digital Media	7,972	7,779	23,936	22,906
WWE Studios	5,620	12,803	19,500	12,803
Total net revenues	$ 108,782	$ 108,110	$ 401,072	$ 353,012
Depreciation and amortization:				
Live and Televised Entertainment	$ 1,782	$ 925	$ 4,484	$ 2,738
Consumer Products	323	323	1,055	1,055
Digital Media	243	210	942	625
WWE Studios	-	-	-	-
Corporate	982	910	3,040	2,554
Total depreciation and amortization	$ 3,330	$ 2,368	$ 9,521	$ 6,972
Operating income:				
Live and Televised Entertainment	$ 17,801	$ 23,051	$ 69,064	$ 73,923
Consumer Products	14,695	10,769	57,163	46,866
Digital Media	838	1,668	4,761	3,906
WWE Studios	1,676	2,532	5,049	(14,331)
Corporate	(27,100)	(24,633)	(89,025)	(66,669)
Total operating income	$ 7,910	$ 13,387	$ 47,012	$ 43,695

	As of September 30, 2008	As of December 31, 2007
Assets:		
Live and Televised Entertainment	$ 134,050	$ 94,871
Consumer Products	22,487	15,185
Digital Media	11,822	9,747
WWE Studios	42,864	45,243
Unallocated	239,557	305,010
Total assets	$ 450,780	$ 470,056

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

6. Property and Equipment

Property and equipment consisted of the following:

	As of September 30, 2008	As of December 31, 2007
Land, buildings and improvements	$ 67,573	$ 60,644
Equipment	68,658	57,605
Corporate aircraft	20,858	20,829
Vehicles	634	634
	157,723	139,712
Less accumulated depreciation and amortization	(68,852)	(61,941)
Total	$ 88,871	$ 77,771

Depreciation and amortization expense for property and equipment was $2,983 and $8,493 for the three and nine months ended September 30, 2008 as compared to $2,045 and $5,917 for the three and nine months ended September 30, 2007.

7. Feature Film Production Assets

Feature film production assets are summarized as follows:

	As of September 30, 2008	As of December 31, 2007
Feature film production assets:		
In release	$ 6,750	$ 20,469
In production	24,366	311
In development	1,032	1,110
Total	$ 32,148	$ 21,890

(dollars in thousands)

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 and nine months ended September 30, 2008 we recorded impairment charges relating to our In release film production assets of $1,939, reflecting our updated projected results for one of our previously released films, *See No Evil*. During the nine months ended September 30, 2007, we recorded an impairment charge of $15,662 related to our film *The Condemned*, which was released in April, 2007. As of September 30, 2008, we do not believe any additional capitalized assets included in Feature Film Production Assets are impaired.

We estimate that approximately 43% of "In release" film production assets are estimated to be amortized over the next twelve months. Approximately 72% of "In release" film production assets are estimated to be amortized over the next three years.

We are currently filming one theatrical feature film, currently titled "*12 Rounds*", and one Direct-to-DVD film, currently titled "*Behind Enemy Lines: Colombia*". These two projects comprise the $24,366 balance of "In production" feature film production assets and are tentatively scheduled for release in 2009. In addition to the capitalized production costs related for these 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 nine months ended September 30, 2008, we expensed $600 for abandoned projects as compared to $0 and $258 for the three and nine months ended September 30, 2007, respectively.

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 September 30, 2008	
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Film libraries	$ 7,877	$ (6,771)	$ 1,106
Trademarks and trade names	3,708	(3,330)	378
	$ 11,585	$ (10,101)	$ 1,484

		As of December 31, 2007	
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**
Film libraries	$ 7,667	$ (6,005)	$ 1,662
Trademarks and trade names	3,708	(3,068)	640
	$ 11,375	$ (9,073)	$ 2,302

(dollars in thousands)

Amortization expense was $347 and $1,028 for the three and nine months ended September 30, 2008 as compared to $323 and $1,055 for the three and nine months ended September 30, 2007.

The following table presents estimated future amortization expense:

For the year ending December 31, 2008	$ 348
For the year ending December 31, 2009	986
For the year ending December 31, 2010	129
For the year ending December 31, 2011	21
	$ 1,484

9. Investment Securities and Short-Term Investments

Investment securities consisted of the following as of September 30, 2008 and December 31, 2007:

	September 30, 2008		
	Amortized Cost	Unrealized Holding Gain (Loss)	Fair Value
Fixed-income mutual funds and other	$ 123	$ 6	$ 129
Auction rate securities	34,350	(1,012)	33,338
Municipal bonds	57,037	(394)	56,643
Total	$ 91,510	$ (1,400)	$ 90,110

	December 31, 2007		
	Cost	Unrealized Holding Loss	Fair Value
Fixed-income mutual funds and other	$ 54,175	$ (962)	$ 53,213
Auction rate securities	77,335	—	77,335
Total	$ 131,510	$ (962)	$ 130,548

10. Income Taxes

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. 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 September 30, 2008, we have $5,929 of unrecognized tax benefits that if recognized, would affect our effective tax rate.

We recognize potential accrued interest and penalties related to uncertain tax positions in income tax expense. We have approximately $825 of accrued interest related to uncertain tax positions as of September 30, 2008.

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, 2005.

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 $100 within 12 months of September 30, 2008.

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11. 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 11 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007.

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 Annual Report on Form 10-K for the year ended December 31, 2007, except as follows:

In the Connecticut litigation, on March 13, 2008, the defendants filed motions for summary judgment and to strike, seeking the dismissal of all counts of the amended complaint relating to the illegal procurement of the videogame license and certain amendments to the toy license. On April 14, 2008, we filed our objection to those motions. In addition, on April 1, 2008, we filed a motion for summary judgment, seeking a holding that a release asserted by the Jakks Defendants to be a complete bar to all of our claims does not apply to the claims at issue. Oral argument on the defendants' motions was heard on May 19, 2008. On August 29, 2008, the court issued a memorandum of decision, granting the defendants motions for summary judgment and dismissing those counts of the amended complaint relating to the illegal procurement of the videogame license and certain amendments to the toy license. The counts of the amended complaint relating to the defendants illegal sublicensing of rights under the videogame license were not dismissed. On September 18, 2008, we filed a motion to reargue with respect to the courts August 29, 2008 memorandum of decision. The defendants have filed their response to our motion to reargue.

On July 1, 2008, THQ, Inc. (THQ) and Brian Farrell filed a cross-complaint against Jakks Pacific, Inc. (Jakks). The cross-complaint asserts claims for (1) breach of fiduciary duty by, among other things, failing to keep THQ fully informed of the severity and the potential consequences of the allegations asserted by WWE, failing to provide THQ with information THQ requested to allow it to respond to the allegations, failing to allow THQ an opportunity to take steps to resolve the dispute with WWE, and placing its own interests ahead of the interests of the THQ/Jakks Pacific LLC (LLC); and (2) breach of the operating agreement between Jakks and THQ with respect to the LLC (the LLC Agreement) by failing to use its best efforts to maintain the relationship between WWE and the LLC. In addition to the foregoing claims, the cross-complaint asserts separate claims for breach of fiduciary duty, breach of contract, fraudulent inducement, unjust enrichment, indemnification, cancellation of the LLC Agreement, rescission of the LLC Agreement, and declaratory relief, to the extent that we prevail on any of our claims against Jakks.

In the federal litigation, on September 16, 2008, the district court issued an order granting the Jakks Defendants motion for reconsideration and reversing its prior determination that the release, as a matter of law, does not bar the claims at issue. In light of the district courts disposition of the motion for reconsideration, on October 17, 2008, the Second Circuit issued a briefing schedule on the appeal pursuant to which the appellees briefs are due on or before December 15, 2008 and our reply brief is due on or before January 20, 2009. On October 17, 2008, the appellees withdrew their cross-appeals and the Second Circuit issued an order denying as moot our motion to dismiss the cross-appeals.

IPO Class Action

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 Annual Report on Form 10-K for the year ended December 31, 2007.

Levy et al.

On July 24, 2008, we were served with a summons and complaint from three of our former talent purporting to be on behalf of themselves and a class of similarly situated persons. The lawsuit alleges breach of contract and unjust enrichment arising from our treating them as independent contractors rather than employees, which the plaintiffs allege is an erroneous classification. On August 22, 2008, we timely removed the lawsuit to the United States District Court for the District of Connecticut. On September 29, 2008, we filed a motion to dismiss the lawsuit in its entirety. The plaintiffs response to our motion to dismiss will be filed on or before November 10, 2008.

Item 2.

Managements 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 various broadband and mobile content.

WWE Studios (formerly WWE Films)

- Revenues consist of our share of receipts from the distribution of filmed entertainment featuring our Superstars. Two feature films were released in 2006 and one film was released in 2007. We participate in revenues generated under the distribution of the films through all media after the print and advertising and distribution costs incurred by our distributors have been recouped and the results have been reported to us.

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Results of Operations

Three Months Ended September 30, 2008 compared to Three Months Ended September 30, 2007 (Dollars in millions, except as noted)

Summary

Net Revenues	**September 30, 2008**	**September 30, 2007**	**better (worse)**
Live and Televised Entertainment	$ 68.7	$ 68.6	-
Consumer Products	26.6	19.0	40%
Digital Media	7.9	7.7	3%
WWE Studios	5.6	12.8	(56%)
Total	$ 108.8	$ 108.1	1%

Cost of Revenues:	**September 30, 2008**	**September 30, 2007**	**better (worse)**
Live and Televised Entertainment	$ 47.0	$ 42.3	(11%)
Consumer Products	10.2	6.9	(48%)
Digital Media	5.7	4.3	(33%)
WWE Studios	3.4	9.9	66%
Total	$ 66.3	$ 63.4	(5%)
Profit contribution margin	39%	41%	

Operating Income:	**September 30, 2008**	**September 30, 2007**	**better (worse)**
Live and Televised Entertainment	$ 17.8	$ 23.1	(23%)
Consumer Products	14.7	11.1	32%
Digital Media	0.8	1.7	(53%)
WWE Studios	1.7	2.5	(32%)
Corporate	(27.1)	(25.0)	(8%)
Total operating income	$ 7.9	$ 13.4	(41%)

Our net revenues for the current quarter increased slightly over the prior year quarter as revenue increases in home video in our Consumer Products group was offset by lower revenue associated with WWE Studios. Our operating income in the current quarter was adversely affected by increased costs associated with our pay-per-view events and television production. The following analysis provides a discussion for each of our operating segments.

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

better

Live and Televised Entertainment Revenues	September 30, 2008	September 30, 2007	(worse)
Live events	$ 20.3	$ 20.1	1%
Number of North American events	77	63	22%
Average North American attendance	5,300	5,500	(4%)
Average North American ticket price (dollars)	$ 38.21	$ 38.92	(2%)
Number of international events	12	15	(20%)
Average international attendance	6,600	9,200	(28%)
Average international ticket price (dollars)	$ 80.68	$ 77.75	4%
Venue merchandise	$ 4.2	$ 3.9	8%
Domestic per capita spending (dollars)	$ 9.83	$ 10.15	(3%)
Pay-per-view	$ 16.4	$ 18.8	(13%)
Number of pay-per-view events	3	3	-
Number of buys from pay-per-view events	926,000	1,063,000	(13%)
Average revenue per buy (dollars)	$ 17.17	$ 17.33	(1%)
Domestic retail price (dollars)	$ 39.95	$ 39.95	-
WWE 24/7 Classics On Demand	$ 1.4	$ 1.4	-
Television rights fees			
Domestic	$ 15.4	$ 14.8	4%
International	9.0	8.0	13%
Total television rights fees	$ 24.4	$ 22.8	7%
Television advertising	$ 2.0	$ 1.6	25%
Total	$ 68.7	$ 68.6	-
Ratings			
Average weekly household ratings for Raw	3.1	3.7	
Average weekly household ratings for SmackDown	2.4	2.6	
Average weekly household ratings for ECW	1.4	1.4	

Cost of Revenues-Live and Televised Entertainment	September 30, 2008	September 30, 2007	better (worse)
Live events	$ 15.6	$ 14.7	(6%)
Venue merchandise	2.7	2.5	(8%)
Pay-per-view	8.1	6.7	(21%)
24/7	0.3	0.4	25%
Advertising	0.2	0.4	50%
Television	18.1	16.6	(9%)
Other	2.0	1.0	(100%)
Total	$ 47.0	$ 42.3	(11%)
Profit contribution margin	32%	38%	

Live event revenues were essentially flat as we held 89 events, including 12 international events, during the current quarter as compared to 78 events, including 15 international events, in the prior year quarter. North American events generated approximately $15.5 million of revenues as compared to $13.5 million in the prior year quarter, reflecting higher total attendance based on the increased number of events. North American average attendance was approximately 5,300 in the current quarter as compared to 5,500 in the prior year quarter, a decrease of 4%. The average ticket price for North American events was approximately $38.21 in the current quarter as compared to $38.92 in the prior year quarter. International events generated $4.8 million of revenues as compared to $6.6 million in the prior year, as four out of the 12 international events in the current quarter were structured as buy-out deals with guaranteed fixed revenues as compared to 10 buy-out deals in the prior year quarter. The remaining international events in which we sold tickets directly yielded an average ticket price of approximately $80.68 in the current quarter as compared to $77.75 in the prior year quarter.

Venue merchandise revenues reflect higher total attendance at our live events, offset by 3% lower per capita spending at our North American shows. The profit contribution margin decreased by 2% to 35% in the current quarter, reflecting the higher proportion of domestic sales, which have higher associated cost of revenues.

Pay-per-view revenues decreased by 13% in the current quarter, based on the lower number of total buys generated by our events in the quarter. Two of the events in the quarter, *The Great American Bash* and *SummerSlam*, generated an aggregate of 93,000 fewer buys than those events in the prior year quarter. The results for the third event in the quarter, *Unforgiven*, were essentially flat to the prior year event. Pay-per-view costs of revenues increased in the current quarter, primarily due to higher production related costs, partially due to broadcasting in high definition.

WWE 24/7 Classics on Demand, our subscription based video-on-demand service, generated revenues that were comparable to the prior year quarter. Currently, WWE 24/7 is offered in approximately 80% of video-on-demand enabled homes in the United States.

The higher television rights fees reflect contractual increases in several international territories. The increase in television cost of revenues reflects higher production and staging costs partially related to our broadcasting in high definition.

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

Consumer Products Revenues		**September 30, 2008**		**September 30, 2007**	**better (worse)**
Licensing	$	10.6	$	9.4	13%
Magazine publishing	$	4.7	$	3.9	21%
Net units sold		1,435,500		1,176,500	22%
Home video	$	11.0	$	5.7	93%
Gross DVD units shipped		724,386		541,921	34%
Other	$	0.3	$	-	-
Total	$	26.6	$	19.0	40%

Cost of Revenues-Consumer Products		**September 30, 2008**		**September 30, 2007**	**better (worse)**
Licensing	$	2.6	$	2.0	(30%)
Magazine publishing		3.5		2.8	(25%)
Home video		4.0		1.8	(122%)
Other		0.1		0.3	67%
Total	$	10.2	$	6.9	(48%)
Profit contribution margin		62%		64%	

Licensing revenues increased in part due to higher royalties earned on sales of video games and music in the current quarter. Music and video game based revenues increased by an aggregate of approximately 52% in the current quarter. The increase in the licensing cost of revenues was due to additional amounts paid to our talent based on the increase in associated revenues and higher international commissions.

Magazine publishing revenue increased by 21% in the current quarter. We published four issues of WWE Magazine as compared to three issues in the prior year quarter. We also published two issues of WWE Kids Magazine in the current year quarter, which began as a new publication in 2008. Increased paper and printing costs generated the higher magazine publishing cost of revenues in the current quarter.

Home video revenues reflect the shipment of over 100,000 DVD units of *Nature Boy Ric Flair-The Definitive Collection*, which represented our best selling title in the current quarter. In addition, we shipped approximately 75,000 DVD units of *The Life & Times of Mr. Perfect* in the quarter. The revenue variance to the prior year quarter is driven by the release schedule in the prior year quarter. There were no new releases in the prior year quarter, excluding pay-per-view- events, based on shift in timing of releases to the fourth quarter of 2007.

The following chart provides performance results and key drivers for our Digital Media segment:

Digital Media Revenues	**September 30, 2008**	**September 30, 2007**	**better (worse)**
WWE.com	$ 4.0	$ 4.6	(13%)
WWEShop	3.9	3.1	26%
Average revenues per order (dollars)	$ 54.72	$ 53.58	2%
Total	$ 7.9	$ 7.7	3%

Cost of Revenues-Digital Media	**September 30, 2008**	**September 30, 2007**	**better (worse)**
WWE.com	$ 2.6	$ 1.8	(44%)
WWEShop	3.1	2.5	(24%)
Total	$ 5.7	$ 4.3	(33%)
Profit contribution margin	29%	44%	

WWE.com revenues reflect a decrease in advertising sales on our website, as well as decreased sales of downloadable mobile content. WWE.com cost of revenues reflects additional streaming and content development expenses.

WWEShop revenues increased due to higher per order spending as compared to the prior year quarter, as well as a 22% increase in the number of orders processed.

WWE Studios (formerly WWE Films)

We participate in film revenues once the print and advertising costs incurred by our distributors have been recouped and the results have been reported to us. We released three feature films, *See No Evil, The Marine* and *The Condemned*, which were released in 2006, 2006 and 2007, respectively. We recorded revenue of $5.6 million in the current quarter related to our three theatrical releases as compared to $12.8 million in the prior year quarter. In the prior year quarter we recorded our first revenues related to our theatrical releases, which included the successful results of *The Marine* DVD. In the current quarter, we also recorded a $1.9 million charge related to revised expectations for our *See No Evil* film, reflecting higher than anticipated distribution costs. In addition, we expensed $0.6 million of previously capitalized script development costs for abandoned film projects.

This was partially offset by better than anticipated results from our films *The Marine* and *The Condemned*. As of September 30, 2008, we have approximately $32.1 million in capitalized film development costs associated with these films and various other film projects that are in development.

Selling, General and Administrative

The following chart reflects the amounts and percent change of certain significant overhead items:

	September 30, 2008	September 30, 2007	better (worse)
Staff related	$ 13.7	$ 13.0	(5%)
Legal, accounting and other professional	4.7	5.0	6%
Stock compensation costs	2.2	2.2	-
Advertising and promotion	1.6	0.9	(78%)
All other	9.1	7.8	(17%)
Total SG&A	$ 31.3	$ 28.9	(8%)
SG&A as a percentage of net revenues	29%	27%	

The increase in staff related expenses and advertising and promotion expenses partially reflect our international expansion with the employment of additional local personnel and incremental marketing presence in locations such as Australia, Japan and Brazil. Legal, accounting and professional fees in the current quarter reflect a decreased level of case activity.

	September 30, 2008	September 30, 2007	better (worse)
Depreciation and amortization	$ 3.3	$ 2.4	(38%)

The increase in depreciation and amortization expense reflects the initial depreciation charges associated with the assets purchased for our implementation of high definition broadcasting.

Investment income, net	$ 1.3	$ 1.8	(28%)

Investment income, net declined due to lower invested balances during the current quarter.

Other expense, net	$ (1.4)	$ (0.8)	(75%)

Other expense, net includes a mark-to-market adjustment for the revaluation of warrants held in certain licensees.

	September 30, 2008	September 30, 2007
Provision for income taxes	$ 2.5	$ 5.7
Effective tax rate	32%	40%

In the current quarter the effective tax rate was 32% as compared to 40% in the prior year quarter. This decrease reflects the impact in the prior year quarter of approximately $0.9 million of realized investment losses which were not deductible for tax purposes.

Nine Months Ended September 30, 2008 compared to Nine Months Ended September 30, 2007 (Dollars in millions, except as noted)

Summary

Net Revenues	**September 30, 2008**	**September 30, 2007**	**better (worse)**
Live and Televised Entertainment	$ 255.3	$ 234.5	9%
Consumer Products	102.4	82.8	24%
Digital Media	23.9	22.9	4%
WWE Studios	19.5	12.8	52%
Total	$ 401.1	$ 353.0	14%

Cost of Revenues:	**September 30, 2008**	**September 30, 2007**	**better (worse)**
Live and Televised Entertainment	$ 174.7	$ 151.1	(16%)
Consumer Products	39.9	31.4	(27%)
Digital Media	14.9	13.7	(9%)
WWE Studios	13.2	25.9	49%
Total	$ 242.7	$ 222.1	(9%)
Profit contribution margin	39%	37%	

Operating Income:	**September 30, 2008**	**September 30, 2007**	**better (worse)**
Live and Televised Entertainment	$ 69.1	$ 73.9	(6%)
Consumer Products	57.2	47.2	21%
Digital Media	4.7	3.9	21%
WWE Studios	5.0	(14.3)	135%
Corporate	(89.0)	(67.0)	(33%)
Total operating income	$ 47.0	$ 43.7	8%

Our Live and Televised Entertainment segment revenues benefited from the strength of our Live Events, specifically in International markets during the current period. Our Consumer Products segment reflected a 22% increase in licensing based revenues, driven in part from strong sales of our video games, while our WWE Studios segment reflected results driven by the timing of our theatrical releases. Operating income in the prior year period was negatively impacted by the recording of an asset impairment for our feature film *The Condemned* for $15.7 million.

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

Live and Televised Entertainment Revenues	**September 30, 2008**	**September 30, 2007**	**better (worse)**

Live events	$	80.2	$	68.4	17%
Number of North American events		195		184	6%
Average North American attendance		6,300		6,400	(2%)
Average North American ticket price (dollars)	$	41.51	$	40.42	3%
Number of international events		51		45	13%
Average international attendance		8,500		7,500	13%
Average international ticket price (dollars)	$	84.60	$	75.54	12%
Venue merchandise	$	15.0	$	14.5	3%
Domestic per capita spending (dollars)	$	10.64	$	11.41	(7%)
Pay-per-view	$	75.5	$	74.4	1%
Number of pay-per-view events		10		11	(9%)
Number of buys from pay-per-view events		4,022,900		4,068,600	(1%)
Average revenue per buy (dollars)	$	18.45	$	17.65	5%
Domestic retail price (dollars)	$	39.95	$	39.95	-
Domestic retail price *WrestleMania* (dollars)	$	54.95	$	49.95	10%
WWE 24/7 Classic on Demand	$	4.8	$	3.8	26%
Television rights fees					
Domestic	$	45.6	$	44.3	3%
International	$	27.5	$	24.3	13%
Total television rights fees	$	73.1	$	68.6	7%
Television advertising	$	5.3	$	3.7	43%
Other	$	1.4	$	1.1	27%
Total	$	255.3	$	234.5	9%
Ratings					
Average weekly household ratings for Raw		3.4		3.9	
Average weekly household ratings for SmackDown		2.5		2.7	
Average weekly household ratings for ECW		1.3		1.5	

Cost of Revenues-Live and Televised Entertainment	**September 30, 2008**	**September 30, 2007**	**better (worse)**
Live events	$ 56.2	$ 49.2	(14%)
Venue merchandise	9.1	9.0	