

WORLD WRESTLING ENTERTAINMENTINC

Form 10-K

February 07, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

---

FORM 10-K

---

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-16131

WORLD WRESTLING ENTERTAINMENT, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

04-2693383

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

1241 East Main Street

Stamford, CT 06902

(203) 352-8600

(Address, including zip code, and telephone number, including area code,

of Registrant's principal executive offices)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT

|  |  |
|--|--|
| Class A Common Stock, \$.01 par value per share<br>(Title of each class) | New York Stock Exchange<br>(Name of each exchange on which registered) |
|--|--|

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of Securities Act. Yes ☐ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☐

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

(Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth  
company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes      No

Aggregate market value of the common stock held by non-affiliates of the Registrant at June 30, 2018 using our closing price on June 30, 2018 was \$3,037,527,698.

As of February 5, 2019, the number of shares outstanding of the Registrant's Class A common stock, par value \$0.01 per share, was 43,739,412 and the number of shares outstanding of the Registrant's Class B common stock, par value \$0.01 per share, was 34,303,438 shares.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the 2019 Annual Meeting of Stockholders are incorporated by reference in Part III of this Form 10-K.

---

Table of Contents

TABLE OF CONTENTS

|   | Page |
|---|------|
| <u>PART I</u>   |      |
| Item 1. <u>Business</u>   | 3    |
| Item 1A. <u>Risk Factors</u>  | 8    |
| Item 1B. <u>Unresolved</u><br><u>Staff</u><br><u>Comments</u>   | 17   |
| Item 2. <u>Properties</u>   | 18   |
| Item 3. <u>Legal</u><br><u>Proceedings</u>  | 18   |
| Item 4. <u>Mine Safety</u><br><u>Disclosures</u>  | 19   |
| <u>PART II</u>  |      |
| Item 5. <u>Market for</u><br><u>Registrant's</u><br><u>Common</u><br><u>Equity. Related</u><br><u>Stockholder</u><br><u>Matters and</u><br><u>Issuer</u><br><u>Purchases of</u><br><u>Equity</u><br><u>Securities</u> | 20   |
| Item 6. <u>Selected</u><br><u>Financial Data</u>  | 22   |
| Item 7. <u>Management's</u><br><u>Discussion and</u><br><u>Analysis of</u><br><u>Financial</u><br><u>Condition and</u><br><u>Results of</u><br><u>Operations</u>  | 23   |
| Item 7A. <u>Quantitative</u><br><u>and Qualitative</u><br><u>Disclosures</u><br><u>about Market</u><br><u>Risk</u>  | 40   |
| Item 8. <u>Financial</u><br><u>Statements and</u><br><u>Supplementary</u><br><u>Data</u>  | 40   |
| Item 9.   | 40   |

|          |  |    |   |
|----------|--|----|---|
|          | <u>Changes in and</u>  |    |   |
|          | <u>Disagreements</u>   |    |   |
|          | <u>with</u>  |    |   |
|          | <u>Accountants on</u>  |    |   |
|          | <u>Accounting and</u>  |    |   |
|          | <u>Financial</u>   |    |   |
|          | <u>Disclosures</u>   |    |   |
| Item 9A. | <u>Controls and</u>  |    |   |
|          | <u>Procedures</u>  | 40 |   |
| Item 9B. | <u>Other</u>   |    |   |
|          | <u>Information</u>   | 43 |   |
|          | <u>PART III</u>  |    |   |
| Item 10. | Directors,<br>Executive<br>Officers and<br>Corporate<br>Governance   | 43 | * |
| Item 11. | Executive<br>Compensation  | 43 | * |
| Item 12. | Security<br>Ownership of<br>Certain<br>Beneficial<br>Owners and<br>Management<br>and Related<br>Stockholder<br>Matters | 43 | * |
| Item 13. | Certain<br>Relationships<br>and Related<br>Transactions,<br>and Director<br>Independence                               | 43 | * |
| Item 14. | Principal<br>Accountant<br>Fees and<br>Services  | 43 | * |
|          | <u>PART IV</u>   |    |   |
| Item 15. | <u>Exhibits and</u><br><u>Financial</u><br><u>Statement</u><br><u>Schedules</u>  | 43 |   |
| Item 16. | <u>Form 10-K</u><br><u>Summary</u>   | 44 |   |

\* Incorporated by reference from the Registrant's Proxy Statement for the 2019 Annual Meeting of Stockholders (the "Proxy Statement").



Table of Contents

PART I

Item 1. Business

World Wrestling Entertainment, Inc. is an integrated media and entertainment company. "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. The initials "WWE" and our stylized and iconic "W" logo are two of our trademarks. This report also contains other WWE trademarks and trade names as well as those of other companies. All trademarks and trade names appearing in this report are the property of their respective holders.

We have been involved in the sports entertainment business for nearly 40 years, and have developed WWE into one of the most popular brands in global entertainment today. We are principally engaged in the production and distribution of unique and creative content through various channels, including our premium over-the-top subscription network ("WWE Network"), content rights agreements, pay-per-view event programming, filmed entertainment, live events, licensing of various WWE themed products, and the sale of consumer products featuring our brands. At the heart of our success are the athletic and entertainment skills and appeal of our Superstars, and our consistently innovative and multi-faceted storylines. Our distribution platforms provide significant cross-promotion and marketing opportunities that reinforce our brands while effectively reaching our fans.

Based on the strength of the Company's brands and its ownership and control over its intellectual property, the Company has been able to leverage its content and talent globally across virtually all media platforms. We continually evaluate additional opportunities to monetize new and existing content, including our WWE Network, which is available in all international markets other than embargoed countries.

Our operations are organized around the following principal activities:

Media:

- The Media segment reflects the production and monetization of long-form and short-form media content across various platforms, including WWE Network, pay television, digital and social media, as well as filmed entertainment. Across these platforms, revenues principally consist of content rights fees, subscriptions to WWE Network, and advertising and sponsorships.

Live Events:

- Live events provide ongoing content for our media platforms. Live Event segment revenues consist primarily of ticket sales, including primary and secondary distribution, revenues from events for which we receive a fixed fee, as well as the sale of travel packages associated with the Company's global live events.

Consumer Products:

- The Consumer Products segment engages in the merchandising of WWE branded products, such as video games, toys and apparel, through licensing arrangements and direct-to-consumer sales. Revenues principally consist of royalties and licensee fees related to WWE branded products, and sales of merchandise distributed at our live events and through eCommerce platforms.

Media

Media net revenues were \$683.4 million, \$535.6 million and \$476.9 million, representing 73%, 67% and 65% of total net revenues in 2018, 2017 and 2016, respectively.

## Network

WWE Network launched in February 2014, becoming the first-ever 24/7 live streaming direct-to-consumer network. This subscription-based network is currently available in all international markets other than embargoed countries, including the United Kingdom, Canada, the Middle East, China and Australia, among others. Subscribers can access all of WWE's live pay-per-view events, exclusive original programming and nearly 11,500 hours of our video-on-demand library. The inclusion of our monthly marquis pay-per-view events, including WrestleMania, and the access to original content and live specials are critical components of the programming which drives our viewer engagement and satisfaction. WWE Network content includes exclusive original programming, groundbreaking documentaries, reality shows and in-ring specials, including the Mae Young Classic, Cruiserweight Classic and the U.K. Championship Tournament. Our strategy of creating compelling original content for broadcast on WWE Network has contributed to the growth and popularity of WWE Network, which premiered nearly 340 hours of original content during 2018.

WWE Network is available on select gaming consoles, computers, mobile devices, internet connected TVs, and popular digital media players. As of December 31, 2018, WWE Network had 1,528,100 paid subscribers as compared to 1,471,400 subscribers at



## Table of Contents

December 31, 2017, representing a 4% increase in our subscriber base. Following WrestleMania 34 in April 2018, WWE Network reached an all-time high of over 2.1 million subscribers. For domestic subscribers, the current subscription pricing of WWE Network is \$9.99 per month with no minimum commitment, and new subscribers are currently offered a one-month free trial.

### Core Content Rights Fees

Leveraging our expertise in live event television production, we produce five hours of original weekly domestic television programming, RAW and SmackDown Live, our core content. RAW and SmackDown Live are licensed domestically under a multi-year contract with NBC Universal (“NBCU”). As previously announced, the Company has reached an agreement under which beginning October 2019, the domestic distribution of our program, SmackDown Live, will move to broadcast television on the Fox Network. Raw will continue to be carried domestically by NBCU on USA Network. We have separate international distribution agreements for Raw and SmackDown Live. Second runs of RAW and SmackDown Live are also available on WWE Network 30 days after the original first run airing dates on television.

RAW is a three-hour live primetime program which ranks among the most watched regularly scheduled programs on primetime cable television. RAW celebrated its 25th anniversary on January 22, 2018. It is the longest running weekly episodic program in primetime television history, with more than 1,300 original episodes, and anchors USA Network’s programming line-up, consistently helping make it the top-rated cable entertainment network.

SmackDown Live is a two-hour live show airing on Tuesdays on USA Network. On October 16, 2018, SmackDown Live celebrated its historic 1,000th episode featuring Superstars from the past and present. SmackDown Live continues to be the second longest running weekly episodic program in primetime TV history, second only to RAW. Beginning in October 2019, SmackDown Live will start airing on the Fox Network under our new domestic distribution agreement for that program.

WWE’s TV-PG, family-friendly television programming can be seen in more than 800 million homes and in 25 languages around the world. Our international broadcast partners currently include: Sky in the United Kingdom; Sony Ten in India, Rogers Communication in Canada, and PPTV in China, among many others.

### Advertising and Sponsorships

WWE utilizes the Internet and social media platforms to promote our brands, market and distribute our content and digital products, create a community experience among our fans and sell advertising across these various platforms. WWE currently streams its media content on select social media platforms, such as YouTube and Facebook. WWE consistently ranks among the top viewed channels on YouTube, with nearly 22.5 billion views of WWE content in 2018. The Company receives advertising revenues from YouTube and Facebook based on viewership of our content. In 2018, WWE had 1.1 billion social media fan engagements across social media platforms such as Facebook, Twitter, YouTube, Instagram and Tumblr.

Our primary website, WWE.com, attracted an average of 10 million monthly unique visitors worldwide during 2018. These visitors viewed an average of 189 million pages and 13 million video streams per month. WWE wallpapers, ringtones, voicetones and videos are available through our mobile partnerships. WWE currently has local language-based websites allowing fans to experience WWE in their native language with a concentration on local events and shows. Currently, the available languages are English, Mandarin, French, German, Polish and Arabic. We have relationships with sales agencies in global markets to sell advertising on WWE.com, which allow our partners to

sell advertising across a region of countries.

In addition, through our sponsorship packages, we offer advertisers a full range of our promotional opportunities, including online and print advertising, on-air announcements and special appearances by our Superstars. These opportunities allow our advertisers and sponsors to engage consumers across a variety of our platforms. In partnership with NBCU, we secured 220 advertisers in 2018. Our diverse customer base for these marketing opportunities include 24 Fortune 100 companies. Our sponsors promote their products utilizing our digital media assets, including promotion on WWE.com as well as promotion through WWE Network and through our various live event shows.

#### Other

Our Media segment also generates revenues from the distribution of other WWE content, including, but not limited to, certain live in-ring programming content in international markets, scripted, reality and other programming, as well as theatrical and direct-to-home video releases.

Our reality-based television series currently includes Total Divas, Total Bellas, and Miz and Mrs. Total Divas, a one-hour reality series on E!, was added to WWE's programming line-up in July 2013, and returned for its eighth season in September 2018. The reality-based show explores life beyond the ring for several female WWE Superstars. Previous episodes of Seasons 1 through 7 are also replayed on WWE Network.

## Table of Contents

Total Bellas, a spinoff of the hit series, Total Divas, was added to WWE's programming line-up in October 2016, and launched a third season in May 2018. This reality-based series airing on E! gives viewers exclusive access into the lives of The Bella Twins and their family. Previous episodes of Seasons 1 and 2 are also replayed on WWE Network.

Miz & Mrs., a docuseries chronicling the lives of WWE Superstars The Miz and Maryse, premiered on July 24, 2018 on USA Network. Following the success of the initial six episodes of this reality-based series, USA Network picked up 14 more episodes, which will air during 2019.

On January 16, 2018, we premiered Mixed Match Challenge, the first live sports program produced specifically for Facebook. During 2018, the first two seasons of this show featured a tournament of mixed tag team matches every week, ultimately determining a winner. This interactive and innovative Facebook experience provided viewers with an in-ring and behind-the-scenes look at all the competitors.

WWE Studios is our multi-platform production company that develops and produces feature films, television (scripted, non-scripted), and digital content. In 2018, WWE Studios released two films partnering with Sony Pictures to release The Marine 6: Close Quarters, and Lionsgate to distribute Blood Brother via a limited theatrical release.

### Live Events

Live Events net revenues were \$144.2 million, \$151.7 million and \$144.4 million, representing 16%, 19% and 20% of total net revenues in 2018, 2017 and 2016, respectively.

Our broad and talented roster of Superstars allows us to perform in numerous domestic markets and take advantage of the strong international demand for our events. Live events and the associated programming produced at our live events are our principal creative content and production activities. Our creative team develops compelling and complex characters and weaves them into dynamic storylines that combine physical and emotional elements. Storylines are usually played out in the ring and unfold on our weekly television shows, culminating in our monthly marquis events which air on WWE Network and are also available via pay-per-view.

### North American Ticket Sales

In 2018, we produced 310 live events (excluding our NXT developmental division) throughout North America, entertaining 1.6 million fans at an average ticket price of \$60.53. We hold many of our live events at major arenas across the country. In addition to providing content for our television and other programming, these events provide us with a real-time assessment of the popularity of our storylines and characters.

### International Ticket Sales

In 2018, we produced 56 live events (excluding NXT) internationally, reaching 347,000 fans at an average ticket price of \$74.87. These events were spread over several international tours throughout Europe, the Middle East, Asia, Latin America and Australia.

### Consumer Products

Consumer Products net revenues were \$102.6 million, \$113.7 million and \$107.9 million, representing 11%, 14% and 15% of total net revenues in 2018, 2017 and 2016, respectively.

## Consumer Product Licensing

We have established a worldwide licensing program using our marks and logos, copyrighted works and characters on a large variety of retail products, including video games, toys, apparel and books. Currently, we have relationships with more than 200 licensees worldwide that provide products for sale at major retailers. To maintain the distinctive style and quality of our intellectual property and brand, we retain creative approval over the design, packaging, advertising and promotional materials associated with these products. Additionally, we continually seek new opportunities to partner with best-in-class organizations to develop new products for our fans and further expand our licensing business.

Video games and toys are the largest components of our licensing program. We have a comprehensive, multi-year licensing agreement with Mattel, Inc. our master toy licensee, covering all global territories and a multi-year licensing agreement with Take-Two Interactive Software, Inc. ("Take-Two") to produce and sell our branded console video games. In partnership with Mattel, we launched a new girls' product line, WWE Superstars, which featured the first-ever fashion dolls of our female Superstars. WWE branded video games currently include WWE 2K, available on PlayStation and XBOX platforms and on iOS and Android devices and WWE SuperCard which is available on iOS and Android devices. The video game industry continues to migrate the availability of video games toward downloadable content through an Internet connected device. Accordingly, our video games can be downloaded via the Internet and contain subsequent downloadable content that can be purchased to add additional characters and game modes to enhance game play.

## Table of Contents

Music is an integral part of the WWE entertainment experience. We compose and record music, including Superstar entrance themes, in our recording studio. In addition to our own composed music, we license music performed by popular artists.

### eCommerce

WWEShop is our direct-to-consumer e-commerce storefront. WWE merchandise is also distributed on other domestic and international e-commerce platforms, including Amazon. We processed 786,800 orders during 2018 as compared to 818,600 in 2017.

### Venue Merchandise

Our direct-to-consumer venue merchandise business consists of the design, sourcing, marketing and distribution of numerous WWE-branded products such as t-shirts, belts, caps and other novelty items, all of which feature our Superstars and/or logos.

### Customers

Our customers include content distributors of our media content through their networks and platforms, fans who purchase tickets to our live events, purchase our merchandise at venues or online through our eCommerce platforms and subscribers to WWE Network, advertisers and sponsors, consumer product licensees, and film distributors/buyers. As noted elsewhere, we have several important partners, including NBCU who carries the domestic television distribution of Raw and, until October 2019, SmackDown Live, the Fox Network which beginning October 2019 will begin distributing SmackDown Live, and the General Sports Authority of the Kingdom of Saudi Arabia who, among other things, hosts our live events in the Middle East.

### Creative Development and Production

Headed by our Chairman and Chief Executive Officer, Vincent K. McMahon, our creative team develops compelling and complex characters and weaves them into dynamic storylines that combine physical and emotional elements. Storylines are usually played out in the ring and unfold on our weekly television shows, culminating in our monthly marquis events. We voluntarily designate the suitability of each of our television shows using standard industry ratings, and all our in-ring television programming carries a PG rating, which is critical to maintaining the Company's reputation for family friendly entertainment.

Our success is due primarily to the continuing popularity of our Superstars. We currently have approximately 215 Superstars under exclusive contracts, ranging from multi-year guaranteed contracts with established Superstars to developmental contracts with our Superstars in training. Our Superstars are highly trained and motivated independent contractors, whose compensation is tied to the revenue that they help generate. We own the rights to substantially all our characters and exclusively license the rights we do not own through agreements with our Superstars.

### Talent Development

We continually seek to identify, recruit and develop additional talent for our business. Our NXT division, which features developmental talent training to become WWE Superstars, has produced approximately 80% of our current active main roster stars, such as Finn Balor, Asuka, Rusev, Becky Lynch, and Apollo Crews. NXT has now evolved into our third brand after Raw and SmackDown and has transitioned into a global touring brand broadcasting live

specials on WWE Network throughout the year. In 2018, we continued our focus on recruiting international talent with tryouts in Jeddah, Saudi Arabia; Cologne, Germany; and Santiago, Chile. These efforts have resulted in approximately 60% of our developmental talent coming from outside the U.S., including the United Kingdom, China, India, Japan, Australia, Ireland, Brazil and Germany. NXT talent train at our WWE Performance Center in Florida, a state-of-the-art training facility, which was designed to cultivate our next generation of talent and has become the center of our talent development program. In efforts to localize our content around the world, we opened the WWE UK Performance Center on January 11, 2019. This is the first WWE training facility outside of the United States and will provide our NXT UK talent with the same world-class development programs as our WWE Performance Center.

#### Competition

While we believe that we have a loyal fan base, the entertainment industry is highly competitive and subject to fluctuations in popularity, which are not easy to predict. For our live event and media content audiences, we face competition from professional and college sports, other live, filmed, televised and streamed entertainment, and other leisure activities. We will face increased competition from websites and mobile and other internet connected apps delivering paid and free content, as streamed media offerings continue to expand. For purchases of our merchandise, we compete with entertainment companies, professional and college sports leagues and other makers of branded apparel and merchandise. Many companies with whom we compete have greater financial resources than we do.

Table of Contents

Trademarks and Copyrights