

## SEC DOESN'T LIKE SECRET HUSH MONEY DEALS EITHER

FORMER HEAD OF WWE SETTLES CHARGES FOR NOT DISCLOSING CONFIDENTIAL SETTLEMENTS WITH HIS ACCUSERS

Jan 13, 2025

### WHAT HAPPENED

On January 10, 2025, the SEC [announced](#) settled charges against Vince McMahon, former Executive Chair and CEO of World Wrestling Entertainment Inc., for signing two settlement agreements without disclosure to the board, anyone at the company, or auditors.

Without admitting or denying the SEC's findings, McMahon agreed to cease-and-desist from violating SEC rules, pay a \$400,000 civil penalty, and reimburse the company \$1.3 million pursuant to Section 304(a) of the Sarbanes-Oxley Act. That provision calls for CEOs and CFOs to reimburse companies for compensation where earnings have to be restated as a result of misconduct.

### TAKEAWAYS

The allegations underscore the need for public companies to remind directors and executive officers of the significance of complying with codes of conduct and disclosure obligations.

### DEEPER DIVE

The key facts are taken from the [SEC Order](#):

#### BACKGROUND

McMahon, the founder and controlling shareholder of WWE, served as CEO until his resignation in June 2022.

***Allegations by Independent Contractor.*** In November 2018, an attorney representing both McMahon and WWE ("McMahon's Attorney") was contacted by an attorney for a former independent contractor with WWE who alleged that McMahon assaulted her in 2005 and derailed her career after she refused to engage in a sexual relationship with him.

In December 2018, the former contractor's attorney sent McMahon's Attorney a demand letter, outlining her allegations and seeking \$18 million to resolve her claims against McMahon and WWE. On February 13, 2019, the parties signed a confidential settlement agreement. McMahon agreed to pay her \$7.5 million over five years, and she agreed to: (1) waive her rights to sue McMahon and WWE; and (2) not disclose the existence or substance of her claims, the agreement, or the payments because such disclosure would "do irreparable harm to McMahon and to WWE." McMahon signed the agreement for both himself and WWE.

***Allegations by Employee.*** From at least 2019 to 2022, McMahon engaged in a personal relationship with a WWE employee. In January 2022, McMahon told her that she should resign from WWE. On January 28, 2022, she signed a settlement agreement, in which McMahon agreed to pay her \$3 million over five years, and she agreed to not disclose her relationship with McMahon, the terms of the agreement, or the payments, and released McMahon and WWE from potential legal claims. McMahon signed the agreement for both himself and WWE.

## NON-DISCLOSURE OF SETTLEMENT AGREEMENTS

McMahon failed to disclose the settlement agreements to WWE's legal and accounting departments, financial reporting personnel, board, and the board's audit committee, as well as the company's outside auditor. As a result, McMahon circumvented WWE's system of internal accounting controls.

WWE did not evaluate the disclosure implications or the appropriate accounting for these transactions in its financial statements. The settlement agreements were not recorded in or otherwise saved with the company's books and records. Instead, they were only stored at the offices of McMahon's Attorney. This meant the company's legal, financial reporting, and accounting personnel did not know about the agreements or have access to them. This, the SEC alleged, resulted in:

- Incomplete reports of legal contingencies by the law department to company accountants.
- WWE's non-compliance with record-keeping requirements of the company's code of business conduct.
- Omissions by McMahon in completing his annual D&O Questionnaires.
- Misrepresentations by McMahon in his annual management representation letters provided to the outside auditors.

In the SEC's view:

- WWE should have recognized the payments under the settlement agreements as expenses by the company because it was a party to the agreements and benefitted from the settlement

agreements, receiving releases and avoiding reputational harm. Additionally, the payments were probable and estimable with respect to the relevant reporting periods.

- The non-recognition of such expenses resulted in:
  - Overstatement of Q4 2018 net income by approximately 22% and annual net income for 2018 by approximately 8%.
  - Overstatement of Q4 2021 net income by 4.9% and full year 2021 net income by 1.7%.
  - Misstatements of liabilities, paid in capital, and accumulated deficits, and omissions of related party disclosures, for fiscal quarters from Q1 2019 to Q1 2022 related party disclosures.
- WWE was required to disclose the transactions and the subsequent payments when made as related party transactions.

## DISCOVERY OF SETTLEMENT AGREEMENTS

Allegations against McMahon came to the attention of the board in April 2022. Following a special meeting, the board undertook an investigation that the company publicly announced in June 2022. The next month, McMahon resigned as CEO and Chairman.

## VIOLATIONS

According to the SEC, as a result of his actions:

- McMahon violated Section 13(b)(5) of the Exchange Act, which prohibits a person from knowingly circumventing or knowingly failing to implement a system of internal accounting controls.
- McMahon violated Exchange Act Rule 13b2-2(a)(1), which prohibits officers or directors from, directly or indirectly, making or causing to be made, a materially false or misleading statement to an accountant in connection with an audit of the issuer's financial statements or the preparation or filing of SEC documents.
- McMahon caused WWE's violation of Section 13(b)(2)(A) of the Exchange Act when it failed to maintain accurate books, records, and accounts.
- McMahon violated Exchange Act Rule 13b2-1, which prohibits any person from directly or indirectly falsifying, or causing the falsification of, WWE books, records, and accounts.
- McMahon caused WWE's violations of Section 13(a) of the Exchange Act when it filed reports that contained material misstatements or omissions.

- McMahon violated Section 304 of the Sarbanes-Oxley Act, which requires the CEO or CFO of any company required to prepare an accounting restatement due to material noncompliance with the securities laws as a result of misconduct to reimburse the company for certain types of compensation.

## RESOLUTION OF CHARGES

Without admitting or denying the SEC's findings, McMahon agreed:

- To cease and desist from violations of the cited securities law provisions.
- To pay a civil money penalty in the amount of \$400,000.
- To reimburse WWE for \$1.3 million pursuant to Section 304(a) of the Sarbanes Oxley Act.

## RELATED PRACTICE AREAS

- Securities Litigation and Enforcement
- Securities & Corporate Governance

## MEET THE TEAM



### **R. Randall Wang**

St. Louis

[randy.wang@bclplaw.com](mailto:randy.wang@bclplaw.com)

+1 314 259 2149



### **Eric Rieder**

New York

[eric.rieder@bclplaw.com](mailto:eric.rieder@bclplaw.com)

+1 212 541 2057



### **Joshua C. Hess**

Atlanta

[josh.hess@bclplaw.com](mailto:josh.hess@bclplaw.com)

+1 404 572 6722

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