

CNET NETWORKS INC
Form 10-Q
May 03, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2007

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 0-20939

CNET Networks, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3696170
(I.R.S. Employer

Identification Number)

235 Second Street, San Francisco, CA 94105

(Address of principal executive offices including zip code)

Telephone Number (415) 344-2000

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(Registrant's telephone number, including area code)

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 reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of April 30, 2007 there were 151,216,779 shares of the registrant's common stock outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1.****CNET NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(UNAUDITED)****(in thousands, except per share data)**

	Three Months Ended	
	March 31, 2007	2006
Revenues	\$ 92,097	\$ 83,650
Operating expenses:		
Cost of revenues (1)	43,482	41,419
Sales and marketing (1)	25,926	22,963
General and administrative (1)	16,080	14,029
Stock option investigation and related matters	4,429	
Depreciation	7,489	4,822
Amortization of intangible assets	3,220	2,739
Total operating expenses	100,626	85,972
Operating loss	(8,529)	(2,322)
Non-operating income (expense):		
Realized gains on investments		500
Interest income	638	1,152
Interest expense	(1,346)	(659)
Other, net	301	140
Total non-operating income (expense)	(407)	1,133
Loss from continuing operations before income taxes	(8,936)	(1,189)
Income tax expense	182	76
Loss from continuing operations	(9,118)	(1,265)
Loss from discontinued operations		(37)
Net loss	\$ (9,118)	\$ (1,302)
Basic and diluted net loss per share	\$ (0.06)	\$ (0.01)
Shares used in calculating basic and diluted net loss per share	150,386	148,733

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(1) Includes stock compensation expense, which was allocated as follows:

Cost of revenues	\$ 1,765	\$ 1,964
Sales and marketing	843	896
General and administrative	2,555	1,896
	\$ 5,163	\$ 4,756

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**CNET NETWORKS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)****(in thousands, except per share data)**

	March 31, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 45,282	\$ 31,327
Investments in marketable debt securities	24,881	30,372
Accounts receivable, net of allowance for doubtful accounts of \$6,995 and \$6,918 at March 31, 2007 and December 31, 2006, respectively	76,190	89,265
Other current assets	12,740	10,512
Total current assets	159,093	161,476
Investments in marketable debt securities	2,500	13,915
Restricted cash	2,216	2,200
Property and equipment, net	75,719	72,625
Other assets	15,685	15,554
Intangible assets, net	35,981	34,978
Goodwill	140,888	133,059
Total assets	\$ 432,082	\$ 433,807
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,831	\$ 10,055
Accrued liabilities	51,989	80,335
Revolving credit facility	60,000	60,000
Current portion of long-term debt	11,521	13,850
Total current liabilities	131,341	164,240
Non-current liabilities:		
Long-term debt	5,483	4,498
Other liabilities	4,325	726
Total liabilities	141,149	169,464
Commitments and contingencies		
Stockholders' equity:		
Common stock; \$0.0001 par value; 400,000 shares authorized; 152,546 and 151,315 outstanding at March 31, 2007 and December 31, 2006, respectively	15	15
Additional paid-in-capital	2,892,237	2,857,238
Accumulated other comprehensive loss	(10,909)	(11,357)
Treasury stock, at cost; 1,510 shares at March 31, 2007 and December 31, 2006	(30,453)	(30,453)
Cumulative effect on retained earnings due to change in accounting principle	261	

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Accumulated deficit	(2,560,218)	(2,551,100)
Total stockholders' equity	290,933	264,343
Total liabilities and stockholders' equity	\$ 432,082	\$ 433,807

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**CNET NETWORKS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)****(in thousands)**

	Three Months Ended	
	March 31,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (9,118)	\$ (1,302)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,709	7,561
Noncash stock compensation expense	5,163	4,756
Asset disposals		52
Noncash interest expense	(59)	(126)
Provision for doubtful accounts	363	837
Gain on sale of business, net		(778)
Gains on sales of marketable securities and privately held investments		(500)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	13,611	19,727
Other assets	(2,992)	3,211
Accounts payable	(2,573)	(217)
Accrued liabilities	(3,298)	(4,010)
Other long-term liabilities	(770)	(33)
Net cash provided by operating activities	11,036	29,178
Cash flows from investing activities:		
Purchase of marketable debt securities	(6,372)	(18,043)
Proceeds from sales of marketable debt securities	24,161	10,070
Proceeds from sales of investments in privately held companies		2,562
Investments in privately held companies		(31)
Purchases of other intangible assets	(181)	
Cash paid for acquisitions, net of cash acquired	(14,108)	(840)
Sale of leasehold improvements	2,349	
Purchases of property and equipment	(9,540)	(8,711)
Net cash used in investing activities	(3,691)	(14,993)
Cash flows from financing activities:		
Net proceeds from issuance of stock	6,454	4,293
Net cash provided by financing activities	6,454	4,293
Net increase in cash and cash equivalents	13,799	18,478
Effect of exchange rate changes on cash and cash equivalents	156	(215)
Cash and cash equivalents at the beginning of the period	31,327	55,895
Cash and cash equivalents at the end of the period	\$ 45,282	\$ 74,158

Supplemental disclosure of cash flow information:

Interest paid	\$ 1,369	\$ 318
Taxes paid	\$ 260	\$ 489
Issuance of note payable for acquisition	\$ 896	\$

See accompanying Notes to Condensed Consolidated Financial Statements.

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CNET NETWORKS, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

(1) BASIS OF FINANCIAL STATEMENTS

BUSINESS AND BASIS OF PRESENTATION

CNET Networks, Inc. (CNET Networks or the Company) is an interactive media company that builds brands for people and the things they are passionate about, such as gaming, music, entertainment, technology, business, food and parenting. The Company's leading brands include CNET, GameSpot, TV.com, MP3.com, ZDNet, TechRepublic, CHOW and UrbanBaby. CNET Networks has a strong presence in the United States, Asia and Europe. CNET Networks was incorporated in the state of Delaware in December 1992.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, except as otherwise indicated, considered necessary for a fair presentation of the financial condition, results of operations and cash flows for the periods presented. These condensed financial statements should be read in conjunction with the audited consolidated financial statements included in CNET Networks' Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission, which contains additional financial and operating information and information concerning the significant accounting policies followed by CNET Networks.

The condensed consolidated results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007 or any other future period.

SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes in CNET Networks' significant accounting policies during the three months ended March 31, 2007 as compared to what was previously disclosed in CNET Networks' Annual Report on 10-K for the year ended December 31, 2006.

CONCENTRATION OF CREDIT RISK

Financial instruments potentially subjecting CNET Networks to concentrations of credit risk consist primarily of cash equivalents, marketable debt securities and trade accounts receivable. CNET Networks invests excess cash in low risk, liquid instruments. The majority of CNET Networks' accounts receivable is derived from sales to advertising agencies, located in the United States. CNET Networks closely monitors its outstanding receivable balances on an ongoing basis.

Revenues from one customer, Google, Inc., approximated 12% and 10% of total revenues for the three months ended March 31, 2007 and 2006, respectively.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006.

CNET Networks files federal income tax returns in the U.S., and also files returns in various state and foreign jurisdictions. CNET Networks is no longer subject to U.S. state, or non-U.S. income tax examinations by tax authorities for years before 2001. Certain U.S. Federal returns for years 1995 and following are not closed by relevant statutes of limitation due to unused net operating losses reported on those returns.

CNET Networks adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a \$261,000 decrease in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of retained earnings. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

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(in thousands)

Balance as of December 31, 2006	\$ 261
Additions based on tax positions related to the current year	
Additions for tax positions of prior years	23,645
Reductions for tax positions of prior years	(261)
Balance as of March 31, 2007	\$ 23,645

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Included in the balance at March 31, 2007 is \$23.6 million of tax positions for which the ultimate impact resulted in an adjustment to net operating loss carryforwards. The Company currently maintains a full valuation allowance against the deferred tax assets arising from these net operating losses. Accordingly, the recognition of these unrecognized tax benefits would not affect the annual effective tax rate.

CNET Networks recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in other expenses. During the quarter ended March 31, 2007, CNET Networks recognized and accrued approximately \$110,000 of penalties. There were no penalties recognized and accrued during the quarter ended March 31, 2006.

(2) ACQUISITIONS AND DISCONTINUED OPERATIONS**Acquisitions**

For the three months ended March 31, 2007, purchase consideration for all acquisitions was as follows:

(in thousands)	
Cash	\$ 10,248
Deferred consideration	876
Direct acquisition costs	267
 Net assets acquired	 \$ 11,391

During the three months ended March 31, 2007, CNET Networks acquired Gamekult in France and acquired the assets of ea3w.com and Stor-Age in China. Gamekult is a video game content site, while ea3w.com is a home consumer electronics buying guide, and Stor-Age is an online media site focused on providing information on storage technology. These acquisitions serve to broaden CNET Networks' content coverage and expand its opportunity to reach new categories of advertisers. Under the terms of the agreements, CNET Networks paid an aggregate purchase price, totaling \$11.4 million for these acquisitions, consisting of \$10.2 million paid in cash, \$0.3 million in direct acquisition costs and a \$0.9 million note payable due in July 2008 bearing interest of 4.0% annually.

The purchase consideration of the acquisitions during the three months ended March 31, 2007 has been allocated to the estimated fair values of the assets acquired and liabilities assumed for these acquisitions at the dates of the acquisitions as follows:

(in thousands)	Total	Weighted Average Life
Cash acquired	\$ 202	
Tangible assets acquired	1,104	
Amortizable intangible assets:		4 years
Trade names	1,733	5 years
Existing relationships	689	4 years
Content	1,455	2 years
Noncompete agreements	82	2 years
Goodwill	7,733	
 Total assets acquired	 12,998	
Liabilities assumed	(1,607)	
 Net assets acquired	 \$ 11,391	

Table of Contents**Discontinued Operations**

On February 2, 2006, CNET Networks sold its Computer Shopper magazine business. The Computer Shopper magazine business was part of the U.S. Media segment. In accordance with the provisions of SFAS 144, CNET Networks has accounted for this disposal as a discontinued operation. CNET Networks recorded a gain of \$0.8 million associated with the sale, which is also included in discontinued operations.

(3) GOODWILL AND INTANGIBLE ASSETS**Acquired Intangible Assets**

The following table sets forth the amount of intangible assets that are subject to amortization, including the related accumulated amortization:

(in thousands)	March 31, 2007		Net Carrying Amount	December 31, 2006 Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization		
Amortized intangible assets:				
Tradenames and trademarks	\$ 44,112	\$ (28,215)	\$ 15,897	\$ 15,230
Existing relationships	17,532	(5,980)	11,552	11,506
Developed technology	8,015	(5,251)	2,764	3,427
Content	7,590	(3,364)	4,226	3,398
Other	3,795	(2,253)	1,542	1,417
Total	\$ 81,044	\$ (45,063)	\$ 35,981	\$ 34,978

Intangible assets that are subject to amortization are amortized on a straight-line basis and have original estimated useful lives as follows: tradenames and trademarks, two to fifteen years; existing relationships, three to seven years; developed technology, two to three years; content, one to five years; and other, one to five years. Useful lives are reviewed regularly to ensure that a change in circumstances has not occurred that would result in a change in useful life. Estimated future amortization expense related to other intangible assets at March 31, 2007 was as follows:

(in thousands)	
Remainder of 2007	\$ 8,970
2008	9,140
2009	6,908
2010	6,127
2011	3,675
Thereafter	1,161
	\$ 35,981

Table of Contents**Goodwill**

The following table sets forth the changes in goodwill by reporting unit for the three months ended March 31, 2007:

(in thousands)	U.S. Media	Channel Services	Asia	Europe	Total
Balances as of December 31, 2006	\$ 97,047	\$ 5,626	\$ 25,985	\$ 4,401	\$ 133,059
Additions				7,733	7,733
Foreign translation adjustments			4	92	96
 Balances as of March 31, 2007	 \$ 97,047	 \$ 5,626	 \$ 25,989	 \$ 12,226	 \$ 140,888

The U.S. Media and Channel Services reporting units operate in the U.S. Media segment. The Asia and Europe reporting units operate in CNET Networks International segment.

(4) STOCK BASED COMPENSATION**EMPLOYEE STOCK OPTION PLANS***Stock Option Program Description*

As of March 31, 2007, CNET Networks had the following stock option incentive plans:

(in thousands)	Plan Name	Number of Shares Authorized	Number of Shares Outstanding	Number of Shares Available for Grant
Stockholder-approved Plans		41,000	12,475	8,882
Plans not approved by stockholders		8,827	3,398	1,387
Assumed Plans		<i>Not Applicable</i>	1,065	
 Total			 16,938	 10,269

Stock options for the 1994 Stock Option Plan, the CNET 1997 Stock Option Plan, the CNET 2000 Stock Incentive Plan, and the CNET 2004 Incentive Stock Plan were approved by the stockholders. Stock options for the 2001 CNET Networks, Inc. Stock Incentive Plan and the TwoFold Photos, Inc. 2003 Common Stock Incentive Plan were not approved by the stockholders. Assumed plans are stock option plans that CNET Networks assumed in connection with various acquisitions. All stock options have terms of 10 years, except for options issued to employees in Switzerland which have a term of 12 years, and generally vest and become fully exercisable four years from the date of grant. The vesting schedule for stock option grants are generally as follows: 25% of the grant vests upon one year from date of grant with the remainder of the grant vesting in 36 equal monthly installments thereafter.

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The following table summarizes stock option activity for the three months ended March 31, 2007:

<i>(in thousands, except per share data)</i>			
Options	Number of Share Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at December 31, 2006	20,217	\$ 9.76	6.97
Granted	396	8.87	
Exercised	(1,231)	5.24	
Forfeited or expired	(2,444)	13.15	
Outstanding at March 31, 2007	16,938	\$ 9.79	7.05

Intrinsic value is calculated as the difference between the market value of stock on a given date and the exercise price of the shares. The aggregate intrinsic value of \$17.1 million and \$92.7 million as of March 31, 2007 and 2006, respectively, is based on CNET Networks' closing stock price of \$8.71 and \$14.21 on those dates, respectively, and represents the total pretax intrinsic value, which would have been received by the option holders had all option holders exercised their options as of that date.

Valuation Information under SFAS 123(R)

The weighted-average estimated grant date fair value of employee stock options granted during the three months ended March 31, 2007 and 2006 was \$4.51 and \$6.55 per share, respectively. The fair value of stock options granted under stock-based compensation plans was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions for grants during the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
Stock options:		
Dividend yield	0%	0%
Expected volatility	50.2-59.3%	56.9%-61.8%
Risk-free interest rate	4.7-4.9%	4.4%-4.8%
Expected term (in years)	3.7-4.6	3.7-4.6
Employee Stock Purchase Plan:		
Dividend yield	0%	0%
Expected volatility	40.4%	34.0%
Risk-free interest rate	5.0%	4.0%
Expected term (in years)	0.39	0.25

CNET Networks' computation of expected volatility is based on a combination of historical and implied stock price volatility. The risk-free interest rate assumption is based upon U.S. Treasury bond rates appropriate for the term of CNET Networks' employee stock options. The dividend yield assumption is based on CNET Networks' history and current expectation of no dividend payouts.

The expected option term is estimated by analyzing the historical term period from grant to exercise and also considering the expected term for those options that are still outstanding.

As of March 31, 2007, there was \$32.4 million of unrecognized compensation cost adjusted for estimated forfeitures related to non-vested stock-based payment awards granted under option plans. That cost is expected to be recognized over a weighted-average period of 2.7 years.

Table of Contents**Modifications of Stock Options**

Under the terms of the CNET Networks option plans, terminated employees who have vested and exercisable stock options have 90 days after the date of termination to exercise the options. The Form S-8 registration statements for shares of common stock issuable under the option plans were not available from August 2006 through January 2007 due to delays in the filing of financial information with the SEC as a result of the stock option investigation and the restatement of the 2005 financial statements. Therefore, terminated employees were precluded from exercising options until January 2007 when CNET Networks was again in compliance with applicable federal securities laws. In 2006, the Compensation Committee of the Board of Directors approved a modification for these individuals by extending the normal 90-day exercise period after termination date to 30 days after the date that CNET Networks became compliant with SEC filings and the registration of the option shares was once again effective, which 30-day period commenced on January 29, 2007. The liability associated with this modification of approximately \$24.0 million was relieved during the first quarter of 2007 either through the exercise of those options or expiration of the remaining unexercised stock options.

EMPLOYEE STOCK PURCHASE PLAN

In July 1996, CNET Networks adopted an Employee Stock Purchase Plan (ESPP) that covers substantially all domestic employees, whereby participants may elect to purchase CNET Networks' stock. The purchase price varies each quarter and is 85% of the lower of the closing price at the beginning of the quarter and the closing price at the end of the quarter for the first and third quarters of the year or the lower of the closing price at the beginning of the prior quarter and the closing price at the end of the current quarter for the second and fourth quarters of the year. Employee contributions consist of a percentage of their compensation. The maximum percentage of compensation that an employee may contribute to purchase CNET Networks stock is 15% subject to a limitation of \$25,000 (of total value) in a calendar year. There were not purchases under the ESPP for the three months ended March 31, 2007. The number of shares available for purchase under the ESPP at March 31, 2007 was 4,986,336.

(5) NET LOSS PER SHARE

The following table sets forth the computation of net loss per share:

(in thousands, except per share data)	Three Months Ended March 31,	
	2007	2006
Loss from continuing operations	\$ (9,118)	\$ (1,265)
Weighted average shares basic and diluted	150,386	148,733
Basic and diluted loss per common share	\$ (0.06)	\$ (0.01)

Basic net income (loss) per share is computed using the weighted average number of outstanding shares of common stock and diluted net income per share is computed using the weighted average number of outstanding shares of common stock and dilutive potential common shares during the period. Potential common shares that are anti-dilutive are excluded from the computation of diluted net income per share.

Statement of Financial Accounting Standards No. 128, Earnings per Share, requires that employee equity share options, nonvested shares and similar equity instruments granted by CNET Networks be treated as potential common shares outstanding in computing diluted earnings per share. Diluted shares outstanding include the dilutive effect of in-the-money options which is calculated based on the average share price for each period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that CNET Networks has not yet recognized, and the amount of benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares.

The following table summarizes potential common shares outstanding excluded from the calculation of diluted net loss per share for the three months ended March 31, 2007 and 2006, because their effect is anti-dilutive:

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(in thousands, except per share data)

	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006	
	Weighted Average Shares	Weighted Average Exercise Price	Weighted Average Shares	Weighted Average Exercise Price
Shares issuable under stock options	16,938	\$ 9.79	18,073	\$ 10.16
Shares issuable pursuant to 0.75% Convertible Senior Notes	NA	NA	8,333	\$ 15.00

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The components of other comprehensive loss for the three months ended March 31, 2007 and 2006 are as follows:

(in thousands)	Three Months Ended March 31,	
	2007	2006
Net loss	\$ (9,118)	\$ (1,302)
Other comprehensive loss:		
Unrealized holding gains arising during the period, net of tax	47	36
Unrealized holding losses arising during the period, net of tax	(15)	(53)
Foreign currency translation loss	(416)	(135)
Comprehensive loss	\$ (9,502)	\$ (1,454)

(7) SEGMENTS

CNET Networks' primary areas of measurement and decision-making include two principal business segments, U.S. Media and International Media. U.S. Media consists of an online media network focused on topics that people are highly interested in such as technology, entertainment, community and business. International Media includes media properties under several of the same brands as our sites in the United States, with additional brands represented in markets such as China and the United Kingdom and several print publications in China.

Summarized information by segment as excerpted from the internal management reports is as follows:

(in thousands)	U.S. Media	Inter- national Media	Other	Total
Three Months Ended March 31, 2007				
Revenues	\$ 74,238	\$ 17,859	\$	\$ 92,097
Operating expenses	59,981	20,344	20,301	100,626
Operating income (loss)	\$ 14,257	\$ (2,485)	\$ (20,301)	\$ (8,529)
Three Months Ended March 31, 2006				
Revenues	\$ 67,763	\$ 15,887	\$	\$ 83,650
Operating expenses	56,519	17,137	12,316	85,972
Operating income (loss)	\$ 11,244	\$ (1,250)	\$ (12,316)	\$ (2,322)

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Since operating income (loss) before depreciation, amortization and stock compensation expense is the measure of operating performance that management uses for making decisions and allocating resources, certain operating costs are not allocated across segments. These unallocated operating costs, included in "Other" in the table above, represent all depreciation and amortization expenses, as well as stock compensation expense.

For the three months ended March 31, 2007, "Other" includes depreciation and amortization expenses of \$10.7 million, stock compensation expense of \$5.2 million and stock option investigation and related matters of \$4.4 million. For the three months ended March 31, 2006, "Other" includes \$7.6 million of depreciation and amortization expense and \$4.8 million of stock compensation expense.

Assets are not allocated to segments for internal reporting purposes. Segment operating income (loss) before depreciation, amortization and stock compensation expense should not be considered a substitute for operating income, cash flows or other measures of financial performance prepared in accordance with accounting principles generally accepted in the United States of America.

(8) COMMITMENTS AND CONTINGENCIES

Class Action Suits

Two shareholder class action lawsuits were filed in the United States District Court for the Southern District of New York on August 16, 2001 and September 26, 2001, against Ziff-Davis, Eric Hippeau and Timothy O'Brien, and investment banks that were the underwriters of the initial public offering of ZDNet series of Ziff-Davis stock (the ZDNet Offering). One of the complaints also names CNET Networks as a defendant, as successor in liability to Ziff-Davis. The complaints are similar and allege violations of the Securities Act of 1933, and one of the complaints also alleges violations of the Securities Exchange Act of 1934. The complaints allege the receipt of excessive and undisclosed commissions by the underwriters in connection with the allocation of shares of common stock to certain investors in the ZDNet Offering and agreements by those investors to make additional purchases of stock in the aftermarket at pre-determined prices. Plaintiffs allege that the prospectus for the ZDNet Offering was false and misleading and in violation of the securities laws because it did not disclose the arrangements. A Consolidated Amended Complaint, which is now the operative complaint, was filed in the Southern District of New York on April 19, 2002. For more details on this matter, please see the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Since the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, the Second Circuit denied Plaintiffs' petition for rehearing of the Court's reversal of the district court's order granting class certification. The Second Circuit noted, however, that Plaintiffs could ask the district court to certify a more narrow class than the one that was rejected.

Shareholder Derivative Suits

On June 19, 2006, a purported shareholder derivative complaint was filed in the United States District Court for the Northern District of California by a party identifying itself as a shareholder of CNET Networks purporting to act on behalf of CNET Networks against the directors of CNET Networks and certain present and former officers of CNET Networks. CNET Networks is also named as a nominal defendant. The suit, captioned *Melzer v. Bonnie, et al.*, alleged violations of federal securities law, California securities law, as well as breach of fiduciary duty, unjust enrichment, and insider trading arising from stock options granted between 1997 and 2003. On July 13, 2006, another purported shareholder derivative complaint, captioned *Finn v. Bonnie et al.*, was filed in the same court containing identical allegations. These purported shareholder derivative actions pending before the United States District Court for the Northern District of California were consolidated on August 31, 2006 and the plaintiffs in those cases have subsequently filed a consolidated complaint on September 28, 2006. That consolidated complaint was amended on November 9, 2006. The complaint seeks monetary damages, disgorgement, an accounting and constructive trust, rescission of stock options and other relief against the defendants on behalf of CNET Networks. The amended complaint also seeks an order directing CNET Networks to undertake certain corporate governance procedures. The complaint does not seek monetary damages from, or the imposition of equitable remedies on, CNET Networks.

On April 11, 2007, the District Court granted our motion to dismiss for failure to present a litigation demand, but granted leave for plaintiffs to further amend their complaint in a separate order on April 30, 2007.

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Except as disclosed above, there have been no material developments in the legal proceedings disclosed in CNET Networks' Annual Report on Form 10-K for the year ended December 31, 2006. The Company's accounting policy is to accrue a liability for those matters when both probable loss has occurred and the amount of loss is reasonably estimable.

(9) SUBSEQUENT EVENT

Tender Offer to Amend Exercise Prices

On March 7, 2007, CNET Networks filed a Tender Offer Statement on Schedule TO with the U.S. Securities and Exchange Commission and commenced an offer (the "Offer") to amend certain options that had been granted to employees with exercise prices per share that were less than the fair market value per share used for financial accounting purposes which options are referred to as discount options.

Under the terms of the Offer, individuals eligible to participate in the offer must have been: (i) a U.S.-based employee on April 7, 2007, the date on which the offer expired; and (ii) holding a discount option grant that was unvested as of December 31, 2004 ("Eligible Options"). Officers and Directors of CNET Networks were not eligible to participate in the Offer.

The terms of the Offer provided that employees could elect to have Eligible Options amended to increase their exercise price per share to be equal to the fair market value used for financial reporting purposes and to receive a cash payment with respect to such amended options equal to the difference between the amended exercise price and the original exercise price of each Eligible Option, less applicable withholding taxes.

As of April 4, 2007, the date on which the offer expired, the Company had received election forms from eligible employees agreeing to amend and increase to fair value the exercise price with respect to 897,465 Eligible Options. Under the terms of the Offer, the Company will make cash payments in January 2008 totaling approximately \$2.1 million to the individuals who have amended their Eligible Options. The cost associated with the amendment (the future cash payment) will be recorded in April 2007 as that is when the offer expired.

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

This report contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially. Further information about these forward-looking statements and risks associated with our business can be found in Part II, ITEM 1A "Risk Factors."

OVERVIEW

CNET Networks, Inc., or CNET Networks, is an interactive media company that builds brands for people and the things they are passionate about, such as technology, entertainment, business, food and parenting. The Company's leading brands include CNET, GameSpot, TV.com, MP3.com, ZDNet, TechRepublic, CHOW and UrbanBaby. Founded in 1992, CNET Networks has a strong presence in the United States, Asia and Europe.

We have determined that our business segments are U.S. Media and International Media. U.S. Media consists of an online media network focused on topics that people are highly interested in, such as technology, entertainment, community and business. International Media includes media properties under several of the same brands as our sites in the United States, with additional brands represented in markets such as China and the United Kingdom and several print publications in China. Within these business segments, we earn revenues from:

Marketing Services: sales of advertisements on our Internet network through impression-based advertising (fees earned from the number of times an advertisement is viewed by users of our websites) and activity-based advertising (fees earned when our users click on an advertisement or text link to visit the websites of our merchant partners, or download a software application or a whitepaper); and sales of advertisements in our print publications.

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Licensing, Fees and User: licensing our product database and online content, subscriptions to our online services and print publications, and other paid services.

We had an average of 143.7 million unique users per month in the first quarter of 2007, compared to 116.8 million unique users in the first quarter of 2006, an increase of 23%. The increase in unique user growth was experienced across all of our properties, especially in the Entertainment and Business properties. These users generated over 81.2 million Web page views per day during the first quarter of 2007 compared to 98.7 million in the first quarter of 2006, an 18% decrease. The decline in page views was driven primarily by Webshots, which has experienced increasing competitive pressures. Our focus is on audience development and creating more engaging experiences for our users. With the addition of more video, audio and other emerging media formats to our properties, we expect to see page views grow at a slower rate. While increases or decreases in unique users and daily average page views are not necessarily indicative of increases or decreases in financial results, we believe that these statistics are helpful because they provide insight into the growth of the Internet as an advertising medium resulting from increased user adoption and increased user demand for CNET Networks' properties in particular.

Operating expenses included in our operating income (loss) before depreciation, amortization, and stock compensation expense consist of cost of revenues, sales and marketing, general and administrative costs and stock option and related matters costs, which are primarily cash related expense activities. The majority of our cash related expenses are costs associated with employee compensation, benefits and facilities. Non-cash related expenses consist of depreciation, amortization of intangible assets and stock compensation expense and are included in our operating income (loss).

Cost of revenues includes costs associated with the production and delivery of our Internet sites, print publications and creation of our product database and related technology. The principal elements of cost of revenues for our operations are compensation and associated expenses for the editorial, production and technology staff and related costs for facilities and equipment. A substantial portion of expenses included in our cost of revenues remain consistent from period to period and do not necessarily fluctuate proportionately with fluctuations in revenues.

Sales and marketing expenses consist primarily of compensation and related expenses including associated costs for facilities, consulting fees and advertising expenses.

General and administrative expenses consist of compensation and related expenses for executive, finance, legal and administrative personnel, professional fees and other general corporate expenses and associated costs for facilities and equipment.

We evaluate our financial performance primarily on the following key measurements:

Revenues

Operating income

We evaluate our liquidity primarily on the following key measurements:

Operating income (loss) before depreciation, amortization and stock compensation expense

Net cash provided by (used in) operating activities

Free cash flow

RESULTS OF OPERATIONS

Revenues

The following table sets forth our revenues for the three months ended March 31, 2007 and 2006;

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(in thousands)	Three Months Ended March 31,					
	2007			2006		
	Total	U.S. Media	International Media	Total	U.S. Media	International Media
Revenues:						
Marketing services	\$ 80,445	\$ 64,165	\$ 16,280	\$ 71,233	\$ 56,981	\$ 14,252
Licensing, fees and user	11,652	10,073	1,579	12,417	10,788	1,629
	\$ 92,097	\$ 74,238	\$ 17,859	\$ 83,650	\$ 67,769	\$ 15,881
Increase over prior year	10%	10%	12%	17%	15%	26%