CNET NETWORKS INC
Form 10-K
March 01, 2007
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the Fiscal Year Ended December 31, 2006**

**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** | **13-3696170** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**235 Second Street, San Francisco, CA 94105**

**(Address of principal executive offices including zip code)**

**Telephone Number (415) 344-2000**

**(Registrant s telephone number, including area code)**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of class | Name of each exchange on which registered |
|---|---|
| **Common Stock, $0.0001 par value** | **The Nasdaq Stock Market, Inc.** |

**Securities registered pursuant to Section 12(g) of the Act:**

**Title of each class**

**None**

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**Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x**

**Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934. YES ¨ NO x**

**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 x NO ¨**

**Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of the 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.**

**Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨**

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

**As of June 30, 2006, the aggregate market value of voting stock held by non-affiliates of the registrant based upon the closing price for the registrant s common stock as reported in the Nasdaq Global Market System was $671,785,343. Shares of common stock held by each officer and director and by each person who owns ten percent or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate is not necessarily a conclusive determination for any other purpose.**

**The total number of shares outstanding of the issuer s common stock (its only class of equity securities), as of February 26, 2007 was 150,766,146.**

**DOCUMENTS INCORPORATED BY REFERENCE**

The Registrant has incorporated by reference portions of its Proxy Statement for its 2007 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934.

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Exhibit 32.2

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## PART I.

**Item 1. Business**
**Forward-Looking Statements**

*This Annual Report on Form 10-K contains forward- looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are any statements other than statements of historical fact. Examples of forward-looking statements include projections of earnings, revenues or other financial items, statements of the plans and objectives of management for future operations, and statements concerning proposed new products and services, and any statements of assumptions underlying any of the foregoing. In some cases, you can identify forward-looking statements by the use of words such as may, will, expects, should, believes, plans, anticipates, estimates, predicts, potential, or continue, and any other words of similar meaning. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, delays in the development or release of new products, changes in customer demands, slower than anticipated adoption of new technology, slower than anticipated growth of new markets, our inability to compete in new markets, reduction in demand for or market acceptance of our products, competition, disruptions in our strategic relationships such as with our key suppliers, fluctuations in general economic conditions, international and political conditions, the loss of an important customer, our ability to safeguard our intellectual property, developments in remedial actions related to the stock option investigation, expenses related to and the outcome of litigation or regulatory actions relating to the stock option investigation or other matters, and the matters set forth in this Annual Report on Form 10-K. These forward-looking statements speak only as of the date hereof. Except as required by law, we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.*

*Any or all of our forward-looking statements in this report and in any other public statements we make may turn out to be wrong and may cause our actual results to differ materially from forecasted or historical results. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including those outlined above. Consequently, no forward-looking statement can be guaranteed. You are advised, therefore, to consult any further disclosures we make on related subjects in our reports to the Securities and Exchange Commission. Also note that we provide cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our businesses. These are factors that we think could cause our actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.*

***OVERVIEW***

CNET Networks, Inc. ( 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, MP3.com, ZDNet, TechRepublic, Webshots, CHOW and Urban Baby. Founded in 1992, CNET Networks has a strong presence in the United States, Asia and Europe.

***AVAILABLE INFORMATION***

Investors can obtain copies of our SEC filings, free of charge, on our website, www.cnetnetworks.com, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Information contained on our website is not and should not be deemed a part of this Annual Report on Form 10-K ( Form 10-K ) or a part of any other report or filing with the SEC.

CNET Networks, Inc. was incorporated in the state of Delaware in December 1992. Our principal executive offices are located at 235 Second Street, San Francisco, California 94105. Our phone number is (415) 344-2000.

***PRODUCTS AND SERVICES***

We operate a growing portfolio of branded media properties that fuel people s passions, including technology, gaming, music, television, parenting and food. Through a combination of content and community features, our properties deliver quality experiences that engage, inform and delight our audiences across our portfolio. Our current brands include: CNET, GameSpot, TV.com, MP3.com, FilmSpot, ZDNet, TechRepublic, BNET, Webshots, CHOW and UrbanBaby. Many of our international sites operate under the same brands as our United States sites, with additional brands in local markets such as Arts-Culinaires in France, Silicon.de in Germany and ZOL and XCar in China. We expect to continue to add new brands in new areas of passion. This effort will further help develop CNET Networks as a leading media company and broaden both our user and advertiser base.

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During 2006, we continued to realize the potential of our existing brands while at the same time identifying new growth opportunities. We made several advancements that highlight our focus on being at the cutting-edge of emerging media. We added richer, more engaging features and services including blogs (a user-generated website where entries are made in journal style), podcasts (an audio media file that is distributed over the Internet) and video to our websites during the year to further enhance the overall user experience and bring together the best audiences and content available. For example, in 2006, we demonstrated our ability to generate emerging media with the launch of CNET TV, which includes high quality video on topics covering technology, consumer electronics, and living the digital lifestyle as well as the success of the ZDNet blog network, where more than 30 well-known IT experts and journalists exclusively blog on the latest developments in the IT marketplace. These examples demonstrate our desire and ability to incorporate independent content into our branded environments to provide our users and marketers the best experience possible. We continued to expand our network of brands and to identify new growth opportunities during the year with the launch of CHOW and FilmSpot, the acquisition of UrbanBaby, and the acquisition of new brands such as Arts-Culinaires in France and XCar in China. These new brand additions represent a long-term growth opportunity for the company, providing the ability to extend our audience reach into broader demographic profiles as well as attract a broader advertiser base.

These efforts contributed to growth in the size of our audience and further established our position among the top ten Internet properties in the world. According to comScore Media Metrix, the audience measurement division of comScore Networks, CNET Networks was the ninth largest Internet network in the world based on total unique users in December 2006. Based on our internal log data, we had an average of 136 million unique users per month during the fourth quarter of 2006, generating nearly 85 million Web page views per day. During the fourth quarter of 2006, monthly unique users were up 17% and average daily page views were down 18% from the fourth quarter of 2005. Excluding our Webshots site, which experienced declines in traffic during the year due to increased competition, average daily page views in the fourth quarter were up 8% compared to the same period in 2005.

As the pace of change continues to accelerate across the media landscape, marketers are competing for the time and attention of an audience that has a multitude of media choices. Our brands provide large marketing platforms for advertisers to create brand awareness and market their products to an influential, passionate audience, which we believe represents some of the most desirable attributes and demographics for brand marketers. During 2006, we continued to expand our focus beyond our traditional customer base, which historically has been largely concentrated in the technology and video game categories, into new categories of general consumer advertising dollars. During 2006, we did business with 59 of the Advertising Age Top 100 US Advertisers, up from 54 in 2005. We believe advertisers recognize the value of the broad reach we have as one of the world s largest Internet networks and that our brands provide targeted content to audiences that are passionate about these categories. The effort to extend our customer base into more general consumer categories was a contributor to growth late in 2006 and remains an opportunity for the coming years as these advertisers increasingly look to the Internet to place their marketing dollars.

As the media landscape rapidly evolves, the Internet continues to gain relevance as a marketing medium. In 2006, online advertising was expected to make up approximately 6% of total worldwide advertising, according to ZenithOptimedia, evidence that the online advertising market is still early in its development. As consumer media consumption continues to change, trending towards more Internet usage and interactive environments, we believe that the Internet will become even more relevant as a branding medium and that interactive media companies, like CNET Networks, should benefit from these trends.

In addition to our interactive operations, in 2006 we also managed print operations in China as well as events operations in the United States, United Kingdom and China. During the year, we took steps to simplify our business and exited some operations that we believed were either not strategic to our future or would not meet our growth and profit expectations. Specifically, in our international operations we discontinued our events operations in China and the United Kingdom and began the process of closing our South Korean media operations. In the United States, we sold the Release 1.0 newsletter and decided to cease production of PC Forum, an annual technology event.

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 our media network with brands focused on people and the things they are passionate about. Our International Media business operates media properties under many of the same brands as our US sites, with additional brands represented in markets such as China and the United Kingdom. We also publish several print publications in China.

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 appears in pages 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 search, or download a software application or a whitepaper); and sales of advertisements in our print publications.

Licensing, Fees and Users: licensing our product database, online content, subscriptions to online services, subscription and newsstand sales of print publications and other paid services.

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**U.S. MEDIA**

**Interactive Business**

Our U.S. Media interactive business includes all aspects of our United States-based online media brands. This business offers information, community and commerce services in the areas such as technology, entertainment, business, food and parenting to millions of users each day. Most of our content is offered free of charge to users; however, we do provide some content on a subscription, fee or licensing basis. This content is delivered using sophisticated and scalable technology platforms that include several key components, such as content publishing and advertising delivery, and online commerce services.

***Brands***

CNET (www.cnet.com) is where people go to discover the latest in technology and consumer electronics. Driven by a trusted voice and a passionate community, CNET creates an open environment for people to find and use the best products to fit their lifestyle. The powerful combination of CNET s award-winning news, lab-tested product reviews, safe and spyware-free downloads and user-generated content give people information and inspiration to live and thrive in today s digital world. CNET News.com and CNET Download.com are integrated under the CNET brand.

GameSpot (www.gamespot.com) provides gamers with comprehensive, engaging and unbiased game information for console, PC and portable platforms. The site s award-winning coverage includes previews and reviews on the hottest titles, breaking news, live Web casts, online tournaments, game downloads, videos, guides, hints and more. GameSpot also has one of the most active online gaming communities fueled by a free, innovative social networking service that makes it easy and fun for gamers to meet and interact with other like-minded enthusiasts. The GameSpot family also includes GameFAQs, Game Rankings and GameSpot Trax, the industry s premier real-time market intelligence tool.

TV.com (www.tv.com) provides in-depth show summaries, episode guides and downloads, biographies, photos and news. This content is greatly enriched by an active, vocal community of tech-forward TV fanatics who express themselves via show summaries, reviews, ratings, blogs, forums, polls and videos. The site also features exclusive content such as live-event coverage, full episode streams and behind-the-scenes footage, plus expert editorial features and weekly podcasts.

MP3.com (www.mp3.com) is a comprehensive music Web site that caters to artists looking to promote their material and connect with listeners and to fans that thrive on discovering new music and expressing their opinions. Fueled by this vocal community of musicians and fans, MP3.com offers thousands of free music tracks, music videos, exclusive interviews, live sessions, daily news, charts and forums.

FilmSpot (www.filmspot.com), launched in late 2006, is an in-depth online movie resource that combines content and community features in an immersive environment that satisfies the interest of movie fans. The site features movie summaries, critical opinions, trailers, news, photos, actor and character guides, celebrity bios, theatrical and DVD release schedules and box-office results. Fans contribute to the content experience via movie reviews (both text and video), ratings, actor biographies, blogs, forums, polls, trivia and images.

TechRepublic (www.techrepublic.com) is a leading community for IT professionals that offers the ultimate peer-to-peer experience. TechRepublic provides information, tools and services created by IT professionals for IT professionals that help members get their jobs done. TechRepublic s members, representing all segments of the IT industry, turn to the site for IT decision support and professional advice.

ZDNet (www.zdnet.com) is an online destination for professionals seeking to solve business technology problems and find new opportunities. The site provides a broad range of business technology coverage by experts across a number of industries. Features include daily news, blogs, podcasts, white papers, Webcasts, editorial analysis, peer feedback and ongoing research.

BNET (www.bnet.com) offers an extensive collection of classic and current business white papers, case studies, Webcasts, audiocasts and other interactive content, created and categorized for decision makers in a variety of business functions. Additionally, the site offers targeted email alerts and newsletters, syndicated content available through rich site summary (RSS) feeds and business blogs for professionals throughout the enterprise.

CHOW (www.chow.com) is an interactive online media property for food and drink enthusiasts. CHOW combines original editorial content from the team that created CHOW Magazine with the passionate community of Chowhounds to create a different kind of food website for those who live to eat. CHOW includes recipes, tips for entertaining, restaurant reviews, recent trends in food, personality features and the passionate and opinionated voice of its users.

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Webshots (www.webshots.com) is one of the Internet s largest photo and video sharing communities where users connect over shared interests spanning ten community-defined topics and thousands of sub-categories. Webshots enables social theater by providing stages for users to present content that ranges in scope from personal events to events of worldwide significance with message boards, favorite user capabilities, comment features and more. AllYouCanUpload.com provides free unlimited photo and video hosting on the proven Webshots infrastructure without the need to register.

UrbanBaby (www.UrbanBaby.com) is an award-winning media site targeting new and expectant mothers. This critically acclaimed site reaches a dedicated audience through an active website, daily email newsletters focusing on the hottest trends, vibrant message boards, helpful classifieds, offline events and direct-marketing initiatives. UrbanBaby s recognition that life does not end with motherhood is apparent in the tone and content of this fashion-forward, urban lifestyle site.

***Scalable Platforms***

CNET Networks has standardized technology platforms which enable the delivery of content and advertising, search results, commerce as well as create universal data collection and registration systems. Our ability to scale and leverage infrastructure has allowed for greater ease of publication of our content and more effective delivery of network-wide advertising. In addition, this standardized platform brings leverage when building or acquiring new online properties. We continuously enhance and improve the functionality of these platforms to support business, customer and audience growth.

As part of our technology platform, we provide commerce, search, data and business intelligence services across our content categories.

Our commerce platforms are designed to link buyers with sellers of products and services. We help individuals and businesses decide what products to buy by providing news, reviews, recommendations, detailed product specifications, real-time prices from competing vendors, merchant ratings, product availability and shipping costs. We believe our shopping services, which provide comprehensive product and buying information, are valuable to users because they provide unbiased information and choice of merchants. These shopping services are valuable to merchants and advertisers because they provide a platform for creating brand awareness and generating sales leads.

In addition, with the integration of search functionality across our content categories, our users are provided with additional access to relevant content in the form of sponsored search links on our properties, while providing CNET Networks with additional revenue opportunities from a broader set of merchants. Sponsored search results are provided by our primary search partner, Google, Inc.

An important component of our technology platforms is the product data that powers these commerce services. Our product database contains more than 3.0 million technology and entertainment products and related product images, descriptions and specifications. Consistent, comprehensive and accurate product data is important not only to our commerce services but also to every business engaged in online commerce. We have been able to leverage this data by licensing it to third parties through our Channel Services business.

Our systems and overall network capabilities allow us to provide our advertising customers with data and business intelligence regarding user activity and the effectiveness of their marketing campaigns to enhance their business or marketing decision process.

**INTERNATIONAL MEDIA**

CNET Networks provides relevant online and offline content in local languages to the various markets we serve worldwide. We maintain an Internet presence in nine countries, which include China, the United Kingdom, France, Australia, Japan, South Korea, Germany, Singapore and Taiwan. Our international websites operate under many of the same brands as our sites in the United States sites, including CNET, ZDNet and GameSpot, with other local brands represented in markets such as China, France and the United Kingdom.

During 2006, we expanded our content coverage beyond our traditional IT focus into broader, more consumer-focused categories in key international markets. We continued to add brands like CNET and GameSpot in local international markets as well as add new brands in the auto and food categories in Asia and Europe. In July 2006, we acquired XCar (www.xcar.com.cn), one of China s leading online automobile destinations that provides independent reviews and information for consumers considering car purchases. We also acquired Arts-Culinaires, one of France s most recognized online food destinations, which provides recipes, directories and editorial content for food enthusiasts. We also launched CNET.com in Australia, CNET CarTech and News in France and GameSpot in the United Kingdom and Australia.

We also operate a direct marketing division, CNET Direct, which focuses on one-to-one marketing solutions serving direct marketing campaigns into more than 18 countries.

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We publish magazines in China, primarily in the technology and entertainment categories. Through our print operations in China, we have built important customer relationships, relevant audiences and content that can be leveraged as our online presence grows over time.

### *MARKETING*

We design our marketing activities to promote our multiple brands and to attract users, viewers and readers to our online network and print publications. Our marketing programs include interactive and print advertising campaigns and participation in trade shows, conferences and speaking engagements. In 2006, we spent $22.2 million (which includes $15.6 million in barter advertising expenses) to market our brands and services. We expect to continue to market our brands, products and services in the future.

### *CUSTOMERS*

For the years ended December 31, 2006 and 2004, revenues from one customer, Google, Inc., represented 10% of total revenues. For the year ended December 31, 2005, revenues from any single customer did not exceed 10% of total revenues. Our top one hundred advertisers in the United States contributed 56%, 57% and 61% of our revenues in 2006, 2005 and 2004, respectively, reflecting the expansion of our customer base.

### *GEOGRAPHIC REGIONS*

For information regarding the geographic areas in which we do business, please see Note 14, Segments and Geographic Information of Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K.

### *EMPLOYEES*

At December 31, 2006, 2005 and 2004, we had approximately 2,620, 2,340 and 2,080 employees on a worldwide basis. We have not experienced work stoppages and believe our employee relations are good.

### *INTELLECTUAL PROPERTY*

Trademarks, trade names, service marks and other proprietary rights, as well as our ability to use United States and foreign laws to protect our intellectual property are important to our success and competitive position.

We have obtained federal trademark registrations for a number of our marks in the United States, including CNET, ZDNet, TechRepublic, GameSpot and Webshots. United States trademark registrations may be renewed indefinitely based on our continued use. While we have applied for and obtained registration of many of our marks in countries outside of the United States where we do business, we have not been able to obtain registration of all of our key marks in such jurisdictions, in some cases due to opposition by individuals and companies employing similar marks. We also claim common law protection on certain names and marks that we have used in connection with our business activities.

We rely on copyright law to protect our original content. We rely on trade secrets, copyright laws, patent laws, confidentiality agreements with our employees and third parties and protective contractual provisions to protect the proprietary technologies that we have developed. We have 25 United States patent applications pending with respect to certain of our software systems, methods and related technologies and ten issued United States patents. United States patents have a twenty-year life from the date of first filing of the patent application. We have also registered numerous trademarks, domain names and logos in the United States and foreign countries.

We also rely on certain technology licensed from third parties. We may be required to license additional technology in the future for use in managing our Internet sites and providing related services to users and advertising customers.

For risks associated with intellectual property, see the Risk Factor entitled, We have limited protection of our intellectual property and could be subject to infringement claims that may result in costly litigation, the payment of damages or the need to revise the way we conduct our business.

### *COMPETITION*

The media industry is intensely competitive and rapidly evolving. We compete for advertisers, users and business partners with numerous companies throughout the world and expect the market to become increasingly competitive as Internet usage and marketing continue to grow in acceptance. We compete with diversified media companies that provide both online and offline content, including magazines, cable television, network television, radio and newspapers. In addition, as diversified media companies continue to introduce and acquire more interactive media offerings, we will increasingly compete with them for consumers and advertisers. We

believe that the Internet offers a competitive advantage over offline media for creating a rich and interactive environment for both users and marketers.

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Our brands also compete with sites focused on the same vertical markets on which we focus. For example, our gaming properties compete with other gaming sites such as IGN Entertainment, and our business properties compete with smaller, niche sites such as TechTarget. As Internet media consumption and advertising continues to gain share, we compete with a variety of online properties for users and marketers, including the following: general purpose portals like AOL, MSN and Yahoo!, especially as these properties expand their content offering in our areas of expertise; search engines like Google, Yahoo! and MSN; online comparison shopping and retail properties, including Shopping.com, Amazon.com and eBay; social networking and community properties such as MySpace and Facebook; and emerging platforms such as blogs, podcasts and video properties. We believe our ability to marry content and community in a unique branded environment coupled with expertise in building online brands for people and the things they are passionate about provide us with many advantages over our competitors.

***SEASONALITY AND CYCLICALITY***

We believe that advertising spending on the Internet, as in traditional media, fluctuates significantly with economic conditions. Because a majority of our revenues are derived from advertising, fluctuations in advertising spending generally, or with respect to Internet-based spending specifically, could adversely impact our revenue. In addition, given that we earn a significant portion of our revenue from key categories such as personal technology, consumer electronics and video games, any product cycles occurring in these industries could have an adverse impact on our revenue growth. In addition, online marketing spending follows seasonal consumer behavior throughout the calendar year to reflect trends during the calendar year, with spending. In recent years, approximately 30% of our annual revenues have been earned in the fourth quarter.

**Item 1A. Risk Factors**

***SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND RISK FACTORS***

This Annual Report on Form 10-K contains forward- looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are any statements other than statements of historical fact. Examples of forward-looking statements include projections of earnings, revenues or other financial items, statements of the plans and objectives of management for future operations, and statements concerning proposed new products and services, and any statements of assumptions underlying any of the foregoing. In some cases, you can identify forward-looking statements by the use of words such as may, will, expects, should, believes, plans, anticipates, estimates, predicts, potential, or continue, and any other wo meaning.

Any or all of our forward-looking statements in this report and in any other public statements we make may turn out to be wrong and may cause our actual results to differ materially from forecasted or historical results. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including those outlined below. Consequently, no forward-looking statement can be guaranteed. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our reports to the Securities and Exchange Commission. Also note that we provide cautionary discussion of risks, uncertainties and possibly inaccurate assumptions relevant to our businesses. These are factors that we think could cause our actual results to differ materially from expected and historical results. Other factors besides those listed here could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

You should carefully consider the risks described below before making an investment decision regarding CNET Networks securities. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The trading price of our common stock could decline due to any of these risks. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

***The matters relating to the Special Committee s and Management s review of our past stock option granting practices and the restatement of our consolidated financial statements have resulted in expanded litigation and regulatory proceedings and may result in future litigation which could harm our financial results.***

On May 22, 2006, we announced that our Board of Directors had appointed a Special Committee comprised of independent directors to conduct, with the assistance of legal counsel and outside accounting experts, an internal investigation relating to past option grants, the timing of such grants and related accounting matters. The Special Committee reached a preliminary conclusion in July 2006 concluding that the actual measurement dates for certain stock options granted between 1998 and 2001 differed from the recorded measurement dates. Charges related to the change in these stock option measurement dates were determined to be material and, as a result, on January 29, 2007, we filed restated financial statements for 2005, 2004 and 2003 and the first quarter of 2006.

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Our review of our past stock option granting practices has required us to incur substantial expenses for legal, accounting, tax and other professional services, has diverted our management s attention from our business, and could in the future harm our business, financial condition, results of operations and cash flows.

Our past stock option granting practices and the restatement of our prior financial statements have exposed us to greater risks associated with litigation and regulatory proceedings. In June 2006, we received a grand jury document subpoena from the United States Attorney for the Northern District of California requesting records pertaining to the granting of stock options. In addition, in May 2006 we received notice that the Securities and Exchange Commission (SEC) was conducting an informal inquiry into our stock option grants. We are cooperating, and will continue to cooperate fully with the United States Attorney for the Northern District of California and the SEC. We cannot predict the outcome of these investigations. In addition, as described in Part II, Item 3, Legal Proceedings , several derivative complaints have been filed against our directors and certain of our executive officers pertaining to allegations relating to stock option grants. We cannot guarantee that new lawsuits related to the investigation or our restatements will not be filed, and we cannot predict the outcome of any current or potential future litigation or regulatory proceeding against CNET Networks or our directors or officers.

While we believe that we have made appropriate judgments in determining the correct measurement dates for option grants, the SEC may disagree with the manner in which we have accounted for and reported, or not reported, the financial impact of past option grant measurement date errors, and there is a risk that any SEC inquiry could lead to circumstances in which we may have to further restate our prior financial statements, amend prior filings with the SEC, or otherwise take other actions not currently contemplated. In addition, the SEC may issue additional guidance on disclosure requirements related to the financial impact of past option grant measurement date errors that may require us to amend this filing or prior filings with the SEC to provide additional disclosures pursuant to this guidance. Any such circumstance could also lead to future delays in filing our subsequent SEC reports and delisting of our common stock from the Nasdaq Global Select Market. Furthermore, if we are subject to adverse findings in any of these matters, we could be required to pay damages or penalties or have other remedies imposed upon us which could harm our business, financial condition, results of operations and cash flows.

***The matters relating to the Special Committee s and Management s review of our past stock option granting practices and the restatement of our consolidated financial statements may otherwise adversely impact our business.***

As a result of our delayed filing of our Quarterly Report on Form 10-Q for the quarters ended June 30, 2006 and September 30, 2006, we will be ineligible to register our securities on Form S-3 for sale by us or resale by others until November 2007. We may use Form S-1 to raise capital or complete acquisitions, but doing so could increase transaction costs and adversely impact our ability to raise capital or complete acquisitions of other companies in a timely manner.

Employees who were awarded options that were granted at a discount from fair market value and were all or partially unvested as of December 31, 2004, which we refer to as discount options, may be subject to income tax liability on the vesting date of those discount options in addition to a 20% excise tax under Internal Revenue Code Section 409A ( Section 409A ) and parallel states taxes. The Company is considering certain actions, which we believe would be in the best interests of our stockholders and employees and might substantially reduce or eliminate the Section 409A and adverse state tax liability for the Company s employees. There is no guarantee that the Company will be successful in developing effective measures to address employees adverse tax consequences. Any such measures may cause the Company to incur additional cash or noncash compensation expense. Furthermore, such measures, or the failure of such measures, may require the Company to incur substantial expenses for legal, accounting, tax and other professional services and may divert our management s attention from our business, which could in the future harm our business, financial condition, results of operations and cash flows.

***Our revenues might not grow, and they might decrease.***

Several factors, many of which are outside of our control, contribute to our revenues growth. Some scenarios that might impede our revenues growth in the future include:

- our failure to maintain existing customers and to attract new marketing customers due to competition from other media outlets, dissatisfaction with our services or reduced advertising budgets;

- our loss of advertising and other marketing opportunities to competitors, especially as other media companies increase their online presence in areas where we focus;

our inability to attract advertisers and users for our newer websites;

our inability to respond to ad-blocking technology might decrease the effectiveness of online advertising;

our failure to attract and retain users to our websites where advertising inventory is purchased;

weakness in corporate and consumer spending in the markets in which we operate, including in the United States, the United Kingdom, China, France and Japan, may lead to a decline in advertising, which is the primary source of our revenues;

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- a decline in general economic conditions, which could occur as a result of currency fluctuations, rising interest rates, or other factors;
- disruption of our operations due to technical difficulties, system downtime, Internet brownouts or denial of service or other similar attacks; and
- disruption to our operations, employees, partners, customers and facilities caused by natural disasters, international or domestic terrorist attacks or armed conflict.

***We may not be able to achieve our targeted profit margins and accordingly we may fail to make expected improvements in our overall profit margins.***

We have identified profit margins as a useful performance measure. We may fail to achieve our profit margin targets. Some of the factors that could cause us not to achieve these targets include:

- greater than expected expenses due to a decision to invest in new products, services or websites;
- acquisitions of businesses that cannot immediately achieve these profit margins;
- greater than expected compensation expenses due to competition for qualified employees;
- a failure to achieve projected revenues growth; or
- a failure to manage the costs associated with innovation and growth.

***Competition is intense and we might not compete successfully.***

The media industry is intensely competitive and rapidly evolving. We compete for advertisers, users and business partners with numerous companies throughout the world and expect the market to become increasingly competitive as Internet usage and marketing continues to grow in acceptance. We compete with diversified media companies that provide both online and offline content, including magazines, cable television, network television, radio and newspapers. In addition, as diversified media companies continue to introduce and acquire more interactive media offerings, we will increasingly compete with them for consumers and advertisers. We believe that the Internet offers a competitive advantage over offline media for creating a rich and interactive environment for both users and marketers.

Our brands also compete with sites focused on the same vertical markets on which we focus. For example, our gaming properties compete with other gaming sites such as IGN Entertainment, and our business properties compete with smaller, niche sites such as TechTarget. As Internet media consumption and advertising continues to gain share, we compete with a variety of online properties for users and marketers, including the following: general purpose portals like AOL, MSN and Yahoo!, especially as these properties expand their content offering in our areas of expertise; search engines like Google, Yahoo! and MSN; online comparison shopping and retail properties, including Shopping.com, Amazon.com and eBay; social networking and community properties such as MySpace and Facebook; and emerging platforms such as blogs, podcasts and video properties. We believe our ability to marry content and community in a unique branded environment coupled with expertise in building online brands for people and the things they are passionate about provide us with many advantages over our competitors.

***An inability to attract and retain key personnel could adversely affect our operations.***

Our success depends to a large extent on the continued services of our senior management team and qualified skilled employees. We depend on our ability to identify, attract, develop, retain and motivate personnel in a competitive job environment. We currently have several key executive positions open, and we cannot assure you that we will find qualified candidates in a timely manner. Our inability to attract key executives and other employees or to retain and motivate existing executives and employees may adversely affect our ability to operate our business. We do not maintain key person life insurance policies on any of our officers or other employees. As the overall industry for interactive content and Internet advertising grows, our employees are increasingly sought after by competitors. In order to remain competitive in the employment market, we may need to increase compensation to retain or attract qualified employees, which could have an adverse effect our financial condition or operating results. Our inability to attain shareholder approval of equity compensation plans may affect our ability to attract and retain key employees.

***Our advertising and other operating revenues may be subject to fluctuations, which could have a material adverse effect on our business, operating results and financial condition.***

We believe that advertising spending on the Internet, as in traditional media, fluctuates significantly with economic conditions. Because a majority of our revenues are derived from advertising, fluctuations in advertising spending generally, or with respect to Internet-based spending specifically, could adversely impact our revenues. In addition, marketing spending follows seasonal consumer behavior throughout the calendar year to reflect trends during the calendar year, with spending historically weighted towards the fourth quarter. Consistent with industry trends, our revenues in 2006 were weighted toward the end of the year, with 31% of our revenues being earned in the fourth quarter.

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***Most of our revenues are derived from short-term contracts which may not be renewed.***

Our revenues are derived in large part from the sale of advertising and we expect that this will continue to be the case for the foreseeable future. Most of our advertising contracts are short-term and are subject to termination by the customer at any time on thirty-day prior written notice. Advertisers who have longer-term contracts may fail to honor their existing contracts or fail to renew their contracts. If a significant number of advertisers or a few large advertisers decided not to continue advertising on our websites, we could experience a rapid decline in our revenues over a relatively short period of time.

***We depend on, and receive, a significant percentage of our revenues from a relatively small number of advertisers.***

A relatively small number of advertisers contribute a significant percentage of our revenues. Our top one hundred customers in the United States contributed 56% of our revenues in 2006. These customers may not continue to use our services to the same extent, or at all, in the future. A significant reduction in advertising by one or more of our largest customers could have a material adverse effect on our financial condition and results of operation.

***Users may not always accept, or may be drawn away from, our brands, content and services.***

Our future success depends upon the strength of our brands and our ability to deliver original and compelling content and services that attract and retain users. We will endeavor to continue building existing brands and introducing new brands, that resonate with their audiences, but we may not be successful. The specialized nature of certain of our sites may limit those sites potential user base. Our content and services might not be attractive to a sufficient number of users to generate revenues consistent with our estimates. In addition, we might not develop new content or services in a timely or cost-effective manner. If we are not successful in growing our user base and increasing user interaction on our sites, then our ability to attract the advertisers who seek to market to the demographic represented by our user base may be affected which would in turn impact our revenues. Our ability to successfully develop and produce content and services is subject to numerous uncertainties, including the ability to:

- anticipate and successfully respond to rapidly changing consumer tastes and preferences;
- fund new program development;
- attract and retain qualified editors, producers, writers, and technical personnel; and
- successfully expand our content offerings into new platform and delivery mechanisms.

Our business may be impacted by any event that decreases the amount of the time that users spend on our properties, including but not limited to geopolitical events and natural disasters. During these times, our traffic and revenues may decrease.

***Our failure to use third-party technologies or develop and maintain successful relationships with third parties may adversely impact our traffic.***

We depend in part on third parties for Internet traffic to our websites and changes to their operations or our failure to develop and maintain relationships with them or use their technologies successfully could result in decreased traffic. Any reduction in users on our websites could negatively impact our ability to earn revenues. A significant portion of our users visit our websites by conducting a search on a search engine, such as Google, MSN or Yahoo!, and following a link displayed in the search results. Changes in the methodologies used by these search engines to display results or our failure to successfully optimize our sites for search engine ranking could result in our websites receiving less favorable placements, which could reduce the number of users who link to our sites from these search engines. In addition, we rely on the cooperation of owners and operators of other Internet sites with whom we have syndication and other arrangements to generate traffic for our Internet sites. Our ability to maintain these relationships will continue to be critical to the success of our Internet operations. If we are unable to develop and maintain satisfactory relationships with such third parties on acceptable commercial terms, or if our competitors are better able to capitalize on these relationships, we could see a reduction in the numbers of users of our websites, which could adversely impact our revenues.

***A significant percentage of our revenues are derived from activity-based fees generated when our users visit the content of our partners, and we might not be able to attract qualified users for which our partners are willing to pay us activity-based fees.***

We earn fees when users search the content of our partners. There are currently many other businesses that offer similar services. In addition, users may prefer to contact our partners directly rather than return to our sites. If we are unable to continue to attract users to our sites or to maintain the fees we charge our partners for these services, then our business, operating results and financial condition may be adversely affected. Most of our agreements with merchants under which activity-based fees are earned are terminable by either party on ten to thirty days notice.

***We have limited protection of our intellectual property and could be subject to infringement claims that may result in costly litigation, the payment of damages or the need to revise the way we conduct our business.***

Our success and ability to compete are dependent in part on the strength of our proprietary rights, on the goodwill associated with our trademarks, trade names, service marks, and on our ability to use United States and foreign laws to protect them. Our intellectual property includes our original content, our editorial features, logos, brands, domain names, the technology that we use to deliver our products and services, the various databases of information that we maintain and make available through our Internet sites or by license, and the appearance of our Internet sites. We claim common law protection on certain names and marks that we have used in connection with our business activities. While we have applied for and obtained registration of many of our marks in countries outside of the United States where we do business, we have not been able to obtain registration of all of our key marks in such jurisdictions, in some cases due to opposition by people employing similar marks. In addition to laws in the United States and foreign jurisdictions, we rely on confidentiality agreements with our employees and third parties, and protective contractual provisions to protect our intellectual property.

Worldwide policing of our intellectual property rights is a difficult task and we might not be able to identify infringers. Our content is widely distributed to third parties through licensing arrangements, and we cannot be certain our third party licensees will always take actions to protect the value of our proprietary rights and reputation. Intellectual property laws, our agreements and our patents may not be sufficient to prevent others from copying or otherwise obtaining and using our content or technologies. Others may develop technologies that are similar or superior to ours. In seeking to protect our trademarks, copyrights and other proprietary rights, or defending ourselves against claims of infringement brought by others, with or without merit, we could face costly litigation and the diversion of our management s attention and resources.

Notwithstanding the efforts that we have taken to ensure that we have sufficient rights to the intellectual property that we use, we could still be subject to claims of infringement. For instance, there has been a recent increase in the granting and attempted enforcement of business process patents that cover practices that may be widely employed in the Internet industry. We have, on occasion, been approached by holders of patents alleging that our services infringe on their patents. Many companies that offer services similar to ours have been approached and, in some cases, sued by other patent holders alleging patent infringement. We could be required to enter into costly royalty arrangements with the holders of these patents or to revise our services to ensure non-infringement or to avoid litigation. If we are unsuccessful in avoiding litigation, we would incur significant expenses and could be subject to damage awards, including damages for past infringement and royalties for future use of the patented method or technology. If we are found to violate any such patent, and we are unable to enter into a license agreement on reasonable terms, our ability to offer services could be materially and adversely affected. We do not have insurance for patent infringement.

These claims could result in the need to develop alternative trademarks, content or technology or to enter into costly royalty or licensing agreements, which could have a material adverse effect on our business, results of operations and financial condition.

***Our business involves risks of liability claims for Internet and print content, which could result in significant costs.***

As a publisher and a distributor of content through the Internet and print publications, we may face potential liability for:

- defamation/libel;
- negligence;
- copyright, patent or trademark infringement; or
- other claims based on the nature and content of the materials published or distributed.

These types of claims have been brought, sometimes successfully, against online services and publishers of print publications. In addition, we could be exposed to liability in connection with material posted to our Internet sites by third parties. For example, many of our sites offer users an opportunity to post profiles, software, videos, photos, reviews and opinions. Some of this user-generated content, and the content that appears in our indexes and directories, may infringe on third party intellectual property rights or privacy rights or may otherwise be subject to challenge under copyright laws. Although we do not believe that our listing of any such material should expose us to liability, it is possible that such a claim may be successfully brought.

Our insurance may not cover potential claims of defamation, libel, negligence and similar claims, and it may or may not apply to a particular claim or be adequate to reimburse us for all liability that may be imposed. Any imposition of liability that is not covered by insurance or is in excess of insurance coverage could have a material adverse effect on our financial condition.

***Changes in regulations could adversely affect the way that we operate.***

It is possible that new laws and regulations in the United States and elsewhere will be adopted covering issues affecting our business, including:

- privacy and use of personally identifiable information;
- copyrights, trademarks and domain names;

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- obscene or indecent communications;
- pricing, characteristics and quality of Internet products and services;
- marketing practices, such as direct marketing or adware;
- the ability of children to access our services;
- taxation of Internet usage and transactions; and
- securities and tax regulations.

Increased government regulation, or the application of existing laws to online activities, could:

- decrease the growth rate of the Internet;
- reduce our revenues;
- increase our operating expenses; and
- expose us to significant liabilities.

We cannot be sure what effect any future material noncompliance by us with these laws and regulations or any material changes in these laws and regulations could have on our business, operating results and financial condition.

***We may have difficulties with our acquisitions, investments and new product developments.***

We intend to pursue new business opportunities and ventures to expand our business, including acquisitions, investments and new product developments in a broad range of content areas and in various domestic and international markets. Our decision to pursue these activities would be accompanied by risks, including, among others:

- investment of a substantial amount of capital, which could have a material adverse effect on our financial condition and our ability to execute our existing business strategy;
- issuance of additional equity interests, which would be dilutive to current stockholders;
- the need to incur borrowings, which would impact future cash flows for the repayment of principal and interest payments, and which borrowing may also have restrictive covenants that could limit certain operating activities including our ability to make acquisitions;

- additional burdens on our management personnel and financial and operational systems;
- difficulty assimilating the operations, technology, corporate culture and personnel of the newly acquired businesses;
- potential disruption to our ongoing business;
- possible inability to retain key personnel;
- additional operating losses and expenses associated with the activities and expansion of acquired businesses; including expenses associated with amortization of purchased intangible assets,
- possible impairment of relationships with existing employees and advertising customers;
- the impact of our recently completed stock option investigation and related lawsuits on our ability to attract business partners;
- potential undisclosed liabilities associated with new or acquired businesses; and
- for foreign acquisitions and investments, additional risks related to the integration of operations across different cultures and languages, currency risks, and the particular economic, political, and regulatory risks associated with specific countries.

In addition, our $60.0 million credit facility, which expires in October 2007, has significant restrictions on additional further borrowings which could impact our ability to fund acquisitions or to pay for capital purchases.

***We may not innovate at a successful pace.***

Our industry is rapidly adopting new technologies and standards to create and satisfy consumer demand. It is critical that we continue to innovate, anticipate and adapt to these changes to ensure that our content delivery platforms, services and products remain interesting to our users, advertisers and partners. In addition, we may discover that we must make significant expenditures to achieve this goal. If we fail to accomplish these goals, we may lose users and the advertisers that seek to reach those users.

***Changes in our tax rate could affect our future results.***

Our future effective tax rates could be unfavorably affected by changes in the valuation of our deferred tax assets and liabilities, changes in the mix of earnings in countries with differing statutory tax rates, or by changes in tax laws or their interpretations. In addition, we are subject to the continuous examination of our tax returns by the Internal Revenues Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. The outcomes from examinations may have an adverse effect on our business, operating results and financial condition.

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***We may be subject to system disruptions and other events that may impact use of our properties, which could adversely affect our revenues.***

Our ability to attract and maintain relationships with users, advertisers, and strategic partners will depend on the satisfactory performance, reliability and availability of our Internet infrastructure. Our Internet advertising revenues relate directly to the number of advertisements and other marketing opportunities delivered to our users. System interruptions or delays that result in the unavailability of Internet sites or slower response times for users would reduce the number of impressions and leads delivered. This could reduce revenues as the attractiveness of our sites to users, strategic partners and advertisers decreases. Our insurance policies provide only limited coverage for service interruptions and may not adequately compensate us for any losses that may occur due to any failures or interruptions in our systems. Further, we do not have multiple site capacity for all of our services in the event of any such occurrence. We may experience service disruptions for the following reasons:

- occasional scheduled maintenance;
- equipment failure;
- an increase in traffic volumes to our sites beyond our infrastructure s capacity;
- disruptions in the services provided to us by third parties; and
- natural disasters, telecommunications failures, power failures, other system failures, maintenance, viruses, hacking or other events.

In addition, our business may be impacted by any event that decreases the amount of the time that users spend on our properties. During these times, our traffic and revenues may decrease. Such events include, but are not limited to, geopolitical events and natural disasters.

There is no guarantee that our disaster recovery plans will be effective in mitigating system disruptions caused by these and other events.

***Our networks may be vulnerable to unauthorized persons accessing our systems, which could disrupt our Internet operations and result in the theft of our proprietary information.***

A party who is able to circumvent our security measures could misappropriate either our proprietary information or the personal information of our users, customers and employees or cause interruptions or malfunctions in our Internet operations. We may be required to expend significant capital and resources to protect against the threat of security breaches or to alleviate problems caused by breaches in security. For example, so-called spiders have and can be used in efforts to copy our databases, including our database of technology products and prices. Our activities and the activities of third party contractors involve the storage and transmission of proprietary and personal information, such as computer software or credit card numbers. Accordingly, security breaches could expose us to a risk of loss or litigation and possible liability. We cannot assure you that contractual provisions attempting to limit our liability in these areas will be successful or enforceable, or that other parties will accept such contractual provisions as part of our agreements.

***There are a number of risks associated with international operations that could adversely affect our business.***

We maintain an international presence through a variety of international structures and business operations. We have wholly-owned operations in Australia, France, Germany, Japan, Russia, Singapore, Switzerland and the United Kingdom and a majority-owned joint venture in South Korea, which we will be exiting in 2007. We also have license arrangements in various other countries throughout the world. We operate our operations in China through a variety of entities some of which are owned by local employees in order to comply with local ownership and regulatory licensing requirements. We believe our current ownership structure complies with all existing Chinese laws. It is possible; however, that the Chinese government may change the applicable laws or take a different interpretation of existing laws. If we were found to be in violation of any existing or future Chinese laws or regulations, we could be subject to fines and other financial penalties, have our licenses revoked, or be forced to discontinue our business entirely.

There are additional risks inherent in doing business in international markets, such as the following:

- weak economic conditions in foreign markets, especially in the business sector;
- challenges caused by distance, language and cultural differences and in doing business with foreign entities and governments;
- uncertainty of product acceptance in different countries;
- longer collection cycles in some countries;
- current, and unforeseen changes in, legal and regulatory requirements;
- difficulties in staffing and managing multi-national operations;
- currency exchange rate fluctuations, which could reduce our revenues as determined under United States GAAP, increase our expenses, and dilute our operating margins;
- difficulties in finding appropriate foreign licensees or joint venture partners;
- potential adverse tax requirements;
- foreign exchange controls that might prevent us from repatriating cash earned in countries outside the United States; and

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- foreign political and economic uncertainty.

***Our debt obligations are restrictive and expose us to risks that could adversely affect our financial condition and prevent us from fulfilling our obligations.***

We have a substantial level of debt and interest expense. At December 31, 2006 we had $78.3 million of outstanding indebtedness, of which $73.9 million was classified as a current liability, including $60.0 million outstanding on a line of credit due in October 2007. In addition, the terms of our $60.0 million credit facility limit the circumstances under which we can incur additional debt and require that we achieve minimum levels of earnings before interest, taxes, depreciation and amortization as well as minimum levels of unrestricted liquidity. The level of our indebtedness and the associated covenants, among other things, could:

- make it difficult for us to satisfy our obligations with respect to our indebtedness;
- make it difficult for us to obtain any necessary financing in the future for working capital, capital expenditures, debt service, acquisitions or general corporate operating purposes;
- require us to dedicate a substantial portion of our cash flow from operations to service interest and principal payments on our debt;
- limit our flexibility in planning for or reacting to changes in our business;
- reduce funds available for use in our operations;
- place us at a possible competitive disadvantage relative to less leveraged competitors and competitors that have better access to capital resources;
- impair our ability to incur additional debt because of financial and other restrictive covenants; and
- make us more vulnerable in the event of a downturn in our business or an increase in interest rates.

As of December 31, 2006, we had cash, cash equivalents and investments of $75.6 million. We have prepared a forecast for 2007 which is based on our current expectations regarding revenue growth and associated operating expense and capital spending levels. If our actual results should differ materially from our expectations, our liquidity may be adversely impacted. If that were to occur, we would take steps to adjust our operating costs and capital expenditures to levels necessary to support our incoming business. We may also need to raise additional equity or borrow additional funds to achieve our longer-term business objectives.

However, if we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments, or if we fail to comply with the various covenants of our $60.0 million credit facility, we would be in default, which would permit our lender to accelerate the maturity of the indebtedness. Any default under our credit facility could have a material adverse effect on our financial condition and adversely impact our business.

In addition, as a result of our delayed filing of our Quarterly Report on Form 10-Q for the quarters ended June 30, 2006 and September 30, 2006, we will be ineligible to register our securities on Form S-3 for sale by us or resale by others until November 2007. We may use Form S-1 to raise capital or complete acquisitions, but doing so could increase transaction costs and adversely impact our ability to raise capital or complete acquisitions of other companies in a timely manner.

***Our business, operating results and financial condition may be impacted by certain contingencies related to our guarantee of certain lease obligations.***

In conjunction with the ZDNet acquisition in 2000, we assumed a guarantee of the obligations of Ziff Davis Media Inc., an unaffiliated company and primary lessee, under a New York City office lease for a total of 399,773 square feet. This lease expires in 2019. The annual average cost per square foot is approximately thirty dollars over the remaining term of the lease. Ziff Davis Media Inc. currently occupies 144,682 square feet of this space. Ziff Davis Media Inc. subleases 205,951 square feet to The Bank of New York, FOJP Risk Management and Softbank. In addition, we currently sublease and occupy 49,140 square feet of the office space from Ziff Davis Media Inc. These leases and subleases fully cover the current monthly lease payments.

As of December 31, 2006, the total lease payments remaining until the end of the lease term were $148.2 million, excluding the amounts attributable to our sublease with respect to the floor we occupy. If the financial condition of any of the sublessees or Ziff Davis Media Inc. were to deteriorate and thereby result in their inability to make lease payments, we would be required to make their lease payments under the guarantee. In addition, any expiration of any sublease, the potential resulting vacancy and the inability of Ziff Davis Media Inc. to make the primary lease payments could result in us being required to make lease payments on these vacancies.

In connection with that guarantee, we have a letter of credit for $15.0 million outstanding as a security deposit. As there is no present obligation to make any payments in connection with this guarantee, we have not recorded any liability for this guarantee in our financial statements.

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***We have generated significant losses in the past and cannot assure you that we will report positive net income in the future. If our revenues do not increase, we may not be able to adjust spending in a timely manner to maintain positive net income.***

In the past, we have generated operating losses, as well as net losses. Although we generated positive net income in 2006, our ability to generate positive net income in 2007 or subsequent periods may be negatively impacted by:

- an inability to decrease expenses in a timely manner to offset any revenues shortfalls or expenses associated with cost-reduction measures, such as severance, lease termination payments, contract termination costs or impairment charges;

- changes in the valuation of our deferred tax assets and liabilities or an adverse outcome of an examination of our tax returns by tax authorities;

- payments associated with contingent liabilities, such as litigation or our guarantee of the New York lease of Ziff Davis Media Inc., as described in more detail in a prior risk factor; or

- any unusual transactions such as impairments or losses on investments.

***We will record substantial stock compensation expenses, which may have a material negative impact on our operating results for the foreseeable future.***

Effective January 1, 2006, we adopted the SFAS 123R for stock-based employee compensation. Our stock compensation expense was $19.8 million in 2006 and is also expected to be significant in future periods, which will have an adverse impact on our operating income and net income. Our option-pricing model requires the input of highly subjective assumptions, including the option s expected life and the price volatility of the underlying stock. Changes in the subjective input assumptions can materially affect the amount of our stock compensation expense. Our estimated stock compensation expenses may also be greater than expected if the fair value of our stock increases. In addition, an increase in the competitiveness of the market for qualified employees could cause us to issue more stock options or other securities than expected, which would increase our stock compensation expense.

***Changes in the interpretation of United States generally accepted accounting principles, or GAAP, may affect our reported results.***

We prepare our financial statements in conformity with GAAP, which is subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in these principles could have a significant effect on our reported results and may affect the reporting of transactions completed prior to the announcement of a change.

***Accounting rules regarding goodwill could make our reported results more volatile.***

Goodwill is tested for impairment annually or when an event occurs indicating the potential for impairment. The evaluation is prepared based on our current and projected performance for our identified reporting units. The fair value of our reporting units is determined using a combination of the cash flow and market comparable approaches. If we conclude at any time that the carrying value of our goodwill and other intangible assets for any of our reporting units exceeds its implied fair value, we will be required to recognize an impairment, which could materially reduce operating income and net income in the period in which such impairment is recognized.

In the application of these methodologies, we are required to make estimates of future operating trends and judgments on discount rates and other variables. Actual future results and other assumed variables could differ from these estimates, including changes in the economy, the business environment in which we operate, and/or our own relative performance. Any differences in actual results compared to our estimates could result in further future impairments. Accordingly, our future earnings may be subject to significant volatility, particularly on a period-to-period basis.

***A substantial number of shares of common stock may be sold, which could affect the trading price of our common stock.***

We have a substantial number of shares of common stock subject to stock options. As of December 31, 2006, we had 13.2 million shares of common stock available for future grant under our stock option and employee stock purchase plans and 20.2 million issuable upon the future conversion of outstanding stock options. In addition, as of December 31, 2006, we have approximately 250 million shares of authorized but unissued shares of our common stock that are available for future sale. We cannot predict the effect, if any, that future sales of shares of our common stock, or the availability of shares of our common stock for future sale, will have on the market price of our common stock. Sales of substantial amounts of our common stock, including shares issued in connection with acquisitions or upon the exercise of stock options or warrants or the conversion of debt securities, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

***The trading value of our common stock may be volatile and decline substantially.***

The trading price of our common stock is subject to wide fluctuations, which are a result of a number of events and factors, including:

- quarterly variations in operating results;
- announcements of innovations requiring significant expenditures;

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- new products, strategic developments or business combinations by us or our competitors;
- changes in our financial estimates or that of securities analysts;
- announcements relating the appointment or resignation of a member of senior management;
- restatements of previously issued financial results;
- our sale of common stock or other securities in the future;
- changes in recommendations of securities analysts;
- developments in litigations or other governmental proceedings against us, or new litigations or governmental proceedings;
- the operating and securities price performance of other companies that investors may deem comparable to us; and
- news reports, including those relating to trends in the Internet.

In addition, the stock market in general, and the market prices for Internet-related companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of these companies. These broad market and industry fluctuations may adversely affect the trading price of our common stock. These fluctuations may make it more difficult to use stock as currency to make acquisitions that might otherwise be advantageous, or to use stock options as a means to attract and retain employees.

Any shortfall in revenues or earnings compared to our or analysts or investors expectations could cause, and has in the past caused an immediate and significant decline in the trading price of our common stock. In addition, we may not learn of such shortfalls or delays until late in the fiscal quarter, which could result in an even more immediate and greater decline in the trading price of our common stock.

***Provisions of our certificate of incorporation, bylaws and Delaware law could deter takeover attempts.***

Some provisions in our certificate of incorporation and bylaws could delay, prevent or make more difficult a merger, tender offer, proxy contest or change of control. Our stockholders might view any transaction of this type as being in their best interest since the transaction could result in a higher stock price than the current market price for our common stock. Among other things, our certificate of incorporation and bylaws:

- authorize our Board of Directors to issue preferred stock with the terms of each series to be fixed by our Board of Directors;
- divide our Board of Directors into three classes so that only approximately one-third of the total number of directors is elected each year;
- permit directors to be removed only for cause; and

specify advance notice requirements for stockholder proposals and director nominations.

In addition, with some exceptions, the Delaware General Corporation Law restricts or delays mergers and other business combinations between us and any stockholder that acquires 15% or more of our voting stock.

***Our business could be adversely impacted if we have deficiencies in our disclosure controls and procedures or internal control over financial reporting.***

The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we cannot assure you that our disclosure controls and procedures or internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, particularly a material weakness in internal control over financial reporting, which may occur in the future, could result in misstatements of our results of operations, restatements of our financial statements, a decline in our stock price, or otherwise materially adversely affect our business, reputation, results of operation, financial condition or liquidity.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

We are headquartered in San Francisco, California, where we occupy approximately 283,000 square feet of leased office space. In addition to our San Francisco office, we have several leased offices throughout the United States, including New York City; Cambridge, Massachusetts; and Louisville, Kentucky. We also have leased offices in Europe, Asia and Australia.

## Item 3. Legal Proceedings

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 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. The action seeks damages in an unspecified amount. The action is being coordinated with over 300 nearly identical actions filed against other companies and their underwriters. On February 19, 2003, the Court granted our motion to dismiss the Section 10(b) claim with leave to replead, and denied the motion to dismiss the Section 11 claim. Plaintiffs did not replead the Section 10(b) claim, and the time to replead that claim has expired. On October 13, 2004, the Court certified a class in six of the approximately 300 other nearly identical actions (the focus cases ) and noted that the decision is intended to provide strong guidance to all parties regarding class certification in the remaining cases. The Underwriter Defendants appealed the decision and the Second Circuit vacated the district court s decision granting class certification in those six cases on December 5, 2006. Plaintiffs have not yet moved to certify a class in the CNET Networks case.

The majority of the issuers, including CNET Networks, and their insurers have approved a settlement agreement and related agreements. The agreements set forth the terms of a settlement between CNET Networks, the plaintiff class and the vast majority of the other approximately 300 issuer defendants. It is unclear what impact the Second Circuit s decision vacating class certification in the six focus cases will have on the settlement, which has not been finally approved by the Court. On December 14, 2006, the District court judge held a hearing. Plaintiffs informed the Court that they planned to file a petition for rehearing and rehearing *en banc*. The Court stayed all proceedings, including a decision on final approval of the settlement and any amendments of the complaints, pending the Second Circuit s decision on Plaintiffs petition for rehearing. Plaintiffs filed the petition for rehearing and rehearing *en banc* on January 5, 2007.

Pursuant to the settlement and related agreements, if the settlement receives final approval by the Court, our insurers would participate in an undertaking to guarantee a minimum recovery by the plaintiffs as described below. Among other provisions, the settlement provides for a release of CNET and the individual defendants for the conduct alleged in the action to be wrongful. We would agree to undertake certain responsibilities, including agreeing to assign away, not assert, or release certain potential claims we may have against its underwriters. The settlement agreement also provides a guaranteed recovery of $1 billion to plaintiffs for the cases relating to all of the approximately 300 issuers. To the extent that the underwriter defendants settle all of the cases for at least $1 billion, no payment will be required under the issuers settlement agreement. To the extent that the underwriter defendants settle for less than $1 billion, the issuers are required to make up the difference. On April 20, 2006, JPMorgan Chase and the plaintiffs reached a preliminary agreement for a settlement for $425 million. The JPMorgan Chase settlement has not yet been approved by the Court. In an amendment to the issuers settlement agreement, the issuers insurers agreed that the JP Morgan settlement will only offset the insurers obligation to cover the remainder of plaintiffs guaranteed $1 billion recovery by 50% of the value of the JP Morgan settlement, or $212.5 million. Therefore, if the JP Morgan settlement is finally approved, then the maximum amount that the issuers insurers will be potentially liable for is $787.5 million. However, future settlements with other underwriters would further reduce that liability. It is unclear what impact the Second Circuit s decision vacating class certification in the focus cases will have on the JP Morgan Chase preliminary agreement.

We anticipate that any potential financial obligation of ours to plaintiffs pursuant to the terms of the settlement agreement and related agreements will be covered by existing insurance. Therefore, we do not expect that the settlement will involve any payment by us. Based on the amount of our insurance and the agreement of the insurers to cover legal expenses after June 1, 2003, we do not anticipate additional expenses or liability if the settlement is approved. We are currently not aware of any material limitations on the expected recovery of any potential financial obligation to plaintiffs from our insurance carriers. We believe our carriers are solvent, and we are not aware of any uncertainties as to the legal sufficiency of an insurance claim with respect to any recovery by plaintiffs. Therefore, we do not expect that the settlement will involve any payment by us. If material limitations on the expected recovery of any potential financial obligation to the plaintiffs from our insurance carriers should arise, our maximum financial obligation to plaintiffs pursuant to the settlement agreement would be less than $3.4 million. However, if the JPMorgan Chase settlement is finally approved, our maximum financial obligation to the plaintiffs pursuant to the settlement agreement would be less than $2.7 million.

We cannot assure you that the Court will grant final approval to the settlement. If the settlement is not approved and we are found liable, it is anticipated that any potential financial obligation of CNET Networks to plaintiffs will be covered by existing insurance.

Regardless of whether the settlement is approved, and even if material limitations arise with respect to our expected recovery of any potential obligations to plaintiffs from our insurance carriers, we do not expect that any payments required to be made by us will be material.

On August 3, 2004, two private citizens filed an action, *Cisneros, et al. v. Yahoo! Inc., et al.,* San Francisco Superior Court, Case No.

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CGC 04433518, against CNET Networks, and a number of other defendants claiming that the defendants posted website advertisements for Internet gambling sites in violation of California Business and Professions Code Section 17200. The plaintiffs sought a variety of remedies including disgorgement, restitution, and an injunction. In preliminary hearings, the court has ruled that disgorgement or restitution claims are limited. On December 1, 2005, plaintiffs filed a motion seeking a preliminary injunction. The court has not heard that motion and the plaintiffs have suggested they may not seek a preliminary injunction but do no waive any right to seek a permanent injunction. An additional plaintiff was recently made a party to the case. The Court has scheduled hearings on April 13, 2007 to determine whether plaintiffs are entitled to non-restitutionary disgorgement and to determine whether plaintiffs case has been preempted by the recent enactment of The Unlawful Internet Gambling Enforcement Act which comprises Title VIII of the SAFE Port Act, 31 U.S.C. §§5361 *et seq*. Accordingly, it is not possible to predict the impact of this litigation on our financial results.

**Shareholder Derivative Suits**

On May 31, 2006, a purported shareholder derivative complaint was filed in the Superior Court of California, County of San Francisco, 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 *Paskar v. Bonnie, et al.*, alleges breaches of fiduciary duty and unjust enrichment arising from stock options granted between 1996 and 2004. The complaint seeks monetary damages, disgorgement, rescission of stock options and other relief against the defendants on behalf of CNET Networks. The complaint does not seek monetary damages from, or the imposition of equitable remedies on, CNET Networks. Subsequently, on June 2, 2006, June 19, 2006 and September 22, 2006, three additional purported shareholder derivative actions were filed in the Superior Court of California, County of San Francisco. These three complaints, captioned *Hutton v. Bonnie, et al.*, *Raniolo v. Bonnie et al.* and *Berger v. Bonnie, et al.*, contain substantially similar allegations as the aforementioned shareholder derivative complaint. These four shareholder derivative cases were consolidated on October 23, 2006 and the plaintiffs filed a consolidated complaint on November 16, 2006. We filed a motion to stay these purported shareholder derivative actions pending before the California Superior Court. At a hearing on January 3, 2007, the Superior Court denied our motion to stay but ordered that no discovery or substantive motion practice shall proceed until further order of the Court.

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 and again on February 12, 2007. The complaint, as amended, seeks unspecific monetary damages, disgorgement, an accounting and a constructive trust and other relief against the defendants on behalf of CNET Networks, including an award of attorneys fees and costs. The amended complaint also seeks an order directing CNET to undertake certain corporate governance procedures.

**United States Attorney and SEC Inquiries**

On June 26, 2006, we received a grand jury document subpoena from the United States Attorney for the Northern District of California requesting records pertaining to the granting of stock options. In addition, in May 2006 we received notice that the Securities and Exchange Commission (SEC) was conducting an informal inquiry into our stock option grants. We are cooperating, and will continue to cooperate fully with the United States Attorney for the Northern District of California and the SEC. We cannot predict the outcome of these investigations.

There are no other legal proceedings to which we are a party that are reasonably expected to be material to our business or financial condition.

**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the quarter ended December 31, 2006.

**PART II.**

**Item 5. Market for Registrant s Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is traded on the Global Select Market System of the Nasdaq Stock Market ( Nasdaq ) under the symbol CNET.

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The following table sets forth the ranges of high and low trading prices of the common stock for the quarterly periods indicated, as reported by Nasdaq.

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First quarter | $ 16.09 | $ 12.72 | $ 11.65 | $ 8.80 |
| Second quarter | $ 14.35 | $ 7.50 | $ 12.00 | $ 9.24 |
| Third quarter | $ 10.15 | $ 7.07 | $ 14.24 | $ 11.30 |
| Fourth quarter | $ 9.98 | $ 8.22 | $ 15.98 | $ 12.44 |

We have never declared or paid a cash dividend on our common stock. We do not anticipate paying cash dividends on our common stock in the foreseeable future. We intend to retain any earnings to fund operations and working capital requirements, as well as capital expenditures and expansion.

At February 26, 2007, the closing price for our common stock as reported by Nasdaq was $9.23, and the number of holders of record of our common stock was 876.

The following graph compares the cumulative total return of the common stock during the period commencing December 31, 2001 to December 31, 2006, with the Nasdaq Global Market Index and the Amex Interactive Week Internet Index (the Peer Group Index ). The Nasdaq Composite Index, which includes over 3,000 companies, measures all Nasdaq domestic and international based common type stocks listed on the Nasdaq Stock Market. The graph depicts the results of investing $100 in the common stock, the Nasdaq Global Market and the Peer Group Index at closing prices on December 31, 2001, and assumes that all dividends were reinvested.

**Item 6. Selected Consolidated Financial Data**

The following table sets forth selected consolidated financial data and other operating information. The financial data and operating information do not purport to indicate results of operations as of any future date or for any future period. The financial data and operating information should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

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| (in thousands, except per share data) | Fiscal Year Ended 2006 | 2005 | 2004(a) | 2003 | 2002 |
|---|---|---|---|---|---|
| **Consolidated Statement of Operations Data:** | | | | | |
| Total revenues | $ 387,376 | $ 338,047 | $ 272,181 | $ 210,031 | $ 193,689 |
| Total operating expenses (b)(c)(d) | 378,979 | 308,197 | 274,207 | 248,380 | 606,535 |
| Operating income (loss) | 8,397 | 29,850 | (2,026) | (38,349) | (412,846) |
| Total non-operating income (expense) (e)(f) | (190) | (1,248) | 10,186 | (4,358) | 967 |
| Net income (loss) (g) | 6,836 | 19,583 | 1,839 | (33,836) | (382,560) |
| Basic net income (loss) per share | $ 0.05 | $ 0.13 | $ 0.01 | $ (0.24) | $ (2.78) |
| Diluted net income (loss) per share | $ 0.04 | $ 0.13 | $ 0.01 | $ (0.24) | $ (2.78) |
| Shares used in basic per share calculation | 149,076 | 146,030 | 142,162 | 139,127 | 137,748 |
| Shares used in diluted per share calculation | 152,313 | 152,615 | 148,017 | 139,127 | 137,748 |
| **Consolidated Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 31,327 | $ 55,895 | $ 29,560 | $ 65,913 | $ 47,199 |
| Total marketable debt securities | 44,287 | 54,023 | 44,392 | 51,267 | 79,841 |
| Working capital | (2,764) | 134,013 | 55,924 | 80,205 | 64,666 |
| Total assets | 433,807 | 455,566 | 408,479 | 353,229 | 378,859 |
| Total debt (f) | 18,348 | 141,766 | 139,621 | 118,128 | 117,958 |
| Stockholders equity | $ 264,343 | $ 252,536 | $ 194,917 | $ 171,891 | $ 187,621 |

a) We have made several acquisitions over the past five years. The most significant of which was Twofold Photos, Inc. (Webshots), which we acquired on August 2, 2004. Also, see Note 3, Acquisitions, of Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K. No financial data or operating information related to these acquired companies is included in the Selected Consolidated Financial Data prior to the dates of acquisition.

b) Operating expenses included amortization of intangible assets of $11.9 million, $9.9 million, $5.8 million and $6.1 million for the years ended December 31, 2006, 2005, 2004 and 2003, respectively. Operating expenses for the year ended December 31, 2002 included amortization of goodwill and intangible assets of $34.5 million.

c) During 2006, we recorded goodwill impairment of $2.8 million related to the termination of our events operations. During the year ended December 31, 2005, we recorded an impairment of $1.6 million on a building held for sale in Switzerland. The results of our annual impairment test, as of August 31, 2002, determined that impairment charges of $238.8 million for goodwill and of $40.5 million for intangible assets of our U.S. Media reporting unit were required. Additionally, a loss on the disposal of fixed assets of $11.2 million was recorded in 2002.

d) In 2006, we recorded expenses of $13.7 million related to costs incurred in connection with the investigation of our stock option accounting practices and the restatement of our historical financial statements to correct errors found in the investigation. In 2003 and 2002, a total of $9.8 million and $12.4 million, respectively, were included in operating expenses representing costs to realign our business.

e) In 2006, we recorded a loss of $0.6 million on the sale of HaoSi, our events business in China. In 2004, we recognized net gains of $14.9 million on the sale of our privately held investments by third parties. In 2002, we incurred impairment losses of $15.4 million on privately held investments, for which other-than-temporary declines in value were deemed to have occurred.

f) In 2006, we repaid $125.0 million of 0.75% Senior Convertible Notes upon receipt of a notice of acceleration under the indenture governing the notes. Due to this note repayment, we wrote off $2.2 million of related deferred debt issuance costs in 2006. In 2004, we redeemed the outstanding balance of $113.7 million of our 5% Convertible Subordinated Notes with the proceeds from the offering of $125.0 million of 0.75% Senior Convertible Notes. The redemption of the 5% notes resulted in the write-off of approximately $1.0 million of deferred debt issuance costs and a $1.6 million prepayment penalty. In 2002, we repurchased $59.2 million principal amount of our 5% Convertible Subordinated Notes for $36.7 million, resulting in a gain of $21.6 million, net of the write-off of related deferred debt issuance costs of $0.9 million.

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g) Net income included loss from discontinued operations related to the sale of the Computer Shopper reporting unit of less than $0.1 million for the year ended December 31, 2006. Loss from discontinued operations is $9.1 million, $6.4 million, $9.0 million and $8.8 million for the years ended December 31, 2005, 2004, 2003 and 2002, respectively.

**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations**

***Overview***

CNET Networks, Inc. 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, Webshots, 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 appears in pages 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 search, or download a software application or a whitepaper); and sales of advertisements in our print publications.

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

We had an average of 136 million unique users per month in the fourth quarter of 2006, compared to 116 million unique users in the fourth quarter of 2005, an increase of 17%. The increase in unique users reflects growth primarily from our entertainment properties. Users generated over 85 million Web page views per day during the fourth quarter 2006 compared to 103 million in the fourth quarter 2005, an 18% decrease in page views due to a reduction in traffic to our Webshots property resulting from increased competition. Excluding our Webshots site, average daily page views in the fourth quarter were up 8% compared to the same period in 2005. 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 use of the Internet as an advertising medium resulting from increased user adoption and demand for CNET Networks properties in particular.

Operating expenses included in determining our operating income before depreciation, amortization, impairments and stock compensation expense consist of cost of revenues, sales and marketing and general and administrative costs and stock investigation expense, which are comprised primarily of cash-related expenses. The majority of our cash-related expenses are costs associated with employee compensation (excluding stock compensation), benefits and facilities, which represented 58% of our total operating expenses in 2006. Noncash operating expenses consist of depreciation, amortization of intangible assets, impairments and stock compensation expense and are included in our operating income.

Cost of revenues includes costs associated with producing and maintaining our Internet sites and print publications and creation of our product database and related technology. The principal elements of cost of revenues for our operations are compensation and related expenses for the editorial, production and technology staff and associated 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, consulting fees, advertising expenses and associated costs for facilities and equipment.

General and administrative expenses consist of compensation and related expenses for executive, finance, legal and administrative personnel, professional fees, 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

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We evaluate our liquidity primarily on the following key measurements:

- Operating income before depreciation, amortization, asset impairment and stock compensation expense
- Net cash provided by (used in) operating activities
- Free cash flow

***2006 Results***

During 2006, we continued to realize the potential of our existing brands while at the same time identifying new growth opportunities. Revenues grew by $49.3 million as we expanded our offerings both domestically and internationally with new products, partnerships and acquisitions. Examples of new properties include CHOW, UrbanBaby, XCar in China, CNET.com in Australia and Arts-Culinaires and CNET News in France.

Our operating income was $8.4 million in 2006. Although our revenues increased, our operating income decreased from the prior year as we continued to invest in both new and existing businesses. Our operating income was adversely impacted by $13.7 million of stock investigation costs, a $13.4 million increase in noncash stock compensation expense and expenses related to business closures and severance.

***Annual Results of Operations***

***Year Ended December 31, 2006 vs. Year Ended December 31, 2005***

**Revenues**

Revenues for the years ended December 31, 2006 and 2005 were:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | 2005 | | |
| **(in thousands)** | **Total** | **U.S. Media** | **International Media** | **Total** | **U.S. Media** | **International Media** |
| Revenues: | | | | | | |
| Marketing services | $ 337,010 | $ 266,241 | $ 70,769 | $ 293,315 | $ 233,203 | $ 60,112 |
| Licensing, fees and users | 50,366 | 41,388 | 8,978 | 44,732 | 37,824 | 6,908 |
| | $ 387,376 | $ 307,629 | $ 79,747 | $ 338,047 | $ 271,027 | $ 67,020 |
| Increase over prior year | 15% | 14% | 19% | 24% | 26% | 17% |
| As a Percentage of Revenues: | | | | | | |
| Marketing Services | 87% | 69% | 18% | 87% | 69% | 18% |
| Licensing, fees and users | 13% | 11% | 2% | 13% | 11% | 2% |
| | 100% | 80% | 20% | 100% | 80% | 20% |

*Total Revenues*

Total revenues were $387.4 million and $338.0 million for the years ended December 31, 2006 and 2005, respectively. Total revenues increased 15% in 2006 due to an increase in interactive revenues, which were comprised of marketing services revenues and licensing, fees and users revenues.

The increase in revenues for U.S. Media is primarily related to an increase in marketing services revenues. International revenue growth in 2006 was driven by interactive revenue increase, as well as growth from acquisitions and the favorable impact of changes in foreign exchange rates.

During 2006, we decided to terminate our events operations in China, the United States, and the United Kingdom and to begin the process of closing operations in South Korea, which we expect to complete in the first quarter of 2007. The combined revenue of these operations was $8.4 million in 2006.

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For the year ended December 31, 2006, $12.4 million of our U.S. Media revenues and $2.8 million of our International Media revenues, respectively, were derived from barter transactions. For the year ended December 31, 2005, $10.7 million of our U.S. Media revenues and $2.1 million of our International Media revenues, respectively, were derived from barter transactions. Barter revenues are transactions whereby we deliver marketing services in exchange for marketing services of other companies. These revenues and marketing expenses were recognized at the fair value of the advertisements delivered.

*Marketing Services Revenues*

The increase in marketing services revenues of $43.7 million, or 15%, in 2006 compared to the prior year was primarily due to an increase in marketing spending by our customers and the addition of new customers, and also reflects growth in our content areas, particularly within entertainment and technology.

*Licensing, Fees and Users Revenues*

The increase in our licensing, fees and users revenues of $5.6 million, or 13%, in 2006 was primarily due to increased sales from our CNET Channel data licensing business.

**Operating Expenses**

| | Year Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | | | 2005 | | | |
| | | | Cash expense | | | | Cash expense | |
| (in thousands) | Operating Expense | Noncash expense | Operating Expense | Percent of Revenue | Operating Expense | Noncash expense | Operating Expense | Percent of Revenue |
| Operating expenses: | | | | | | | | |
| Cost of revenues | $ 170,328 | $ 7,709 | $ 162,619 | 42% | $ 152,215 | $ 1,664 | $ 150,551 | 45% |
| Sales and marketing | 98,283 | 3,604 | 94,679 | 24% | 78,940 | 743 | 78,197 | 23% |
| General and administrative | 59,086 | 8,438 | 50,648 | 13% | 48,192 | 3,937 | 44,255 | 13% |
| Stock option investigation | 13,745 | | 13,745 | 4% | | | | |
| Depreciation | 22,848 | 22,848 | | | 17,331 | 17,331 | | |
| Amortization | 11,896 | 11,896 | | | 9,906 | 9,906 | | |
| Asset impairments | 2,793 | 2,793 | | | 1,613 | 1,613 | | |
| Total operating expenses | $ 378,979 | $ 57,288 | $ 321,691 | 83% | $ 308,197 | $ 35,194 | $ 273,003 | 81% |
| Increase over prior year | 23% | | 18% | | | | | |

*Cost of Revenues, Sales and Marketing, General and Administrative*

We refer to cost of revenues, sales and marketing, and general and administrative expenses (excluding noncash stock compensation expense) as cash-related expenses. The majority of our cash-related expenses are costs associated with employee compensation, benefits and facilities. The total increase in cash-related expenses was $48.7 million, or 18%, and was primarily due to an increase in employees and the related employee costs as we continue to invest in our businesses. We anticipate we will continue to experience an increase in cash operating expenses as our business expands.

For the year ended December 31, 2006, the U.S. Media segment cash-related expenses were 76% of revenues compared to 77% in 2005, and the International Media segment cash-related expenses were 94% of revenues compared to 97% in 2005. The decrease in cash-related expenses as a percentage of revenues reflects improved operating margin resulting from revenue growth and cost control initiatives. The operating margins for our International Media segment showed improvement in 2006 but are currently lower than those of our U.S. Media segment due to the earlier stage of development of the online advertising markets in the countries in which we do business.

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Noncash stock compensation expense included in our statements of operations was as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2006 | 2005 |
| **(in thousands)** | | |
| Cost of revenues | $ 7,709 | $ 1,664 |
| Sales and marketing | 3,604 | 743 |
| General and administrative | 8,438 | 3,937 |
| | $ 19,751 | $ 6,344 |

Employees who were awarded options that were granted at a discount from fair market value and were all or partially unvested as of December 31, 2004, which we refer to as discount options, may be subject to income tax liability on the vesting date of those discount options in addition to a 20% excise tax under Internal Revenue Code Section 409A ( Section 409A ) and parallel state taxes. The Company is considering certain actions, which we believe would be in the best interests of our stockholders and employees that might substantially reduce or eliminate the Section 409A and adverse state tax liability for the Company s employees. Depending on the outcome of the actions under consideration, this may result in additional operating expense for the Company in the future.

*Stock Option Investigation*

We incurred expenses of $13.7 million during 2006 related to costs incurred in connection with an internal investigation of our stock option accounting practices and related matters which resulted in the adjustment of our historical financial statements to correct errors found in the investigation. These expenses represent costs for outside legal counsel and outside accounting experts that were engaged by both the special committee of the Board of Directors and management in performing the investigation of our stock option accounting and legal fees associated with the related derivative suits and governmental inquiries. A portion of our legal expenses incurred related to the derivative suits may be subject to reimbursement under our insurance coverage. We expect additional expenses to be recorded in 2007 in connection with management s investigation of our stock option accounting practices and adjustment of our historical financial statements, as well as additional expenses related to the derivative suits and governmental inquiries.

*Depreciation and Amortization*

The increase in depreciation expense in 2006 was due to capital expenditures in 2006 of $32.8 million as compared to $23.4 million in 2005. The increase in amortization expense is primarily due to intangible assets acquired from acquisitions during 2006 and the end of 2005.

*Impairments*

As of August 31, 2006 CNET Networks performed its annual evaluation of the carrying value of goodwill compared to the fair value of each of the reporting units. The evaluation was prepared based on CNET Networks current and projected performance for the identified reporting units. The fair value of our reporting units was determined using a combination of the income and market approaches. Based on this evaluation, CNET Networks determined that the fair value exceeded the carrying value of each of its reporting units as of August 31, 2006 resulting in no impairment to goodwill.

In connection with 2006 decisions to terminate the events business in the United States and to cease operations in South Korea, we recorded impairments to goodwill totaling $2.8 million.

In 2005, a charge of $1.6 million was taken related to an asset held for sale, which consists of a building we own in Switzerland. This asset was written down to its estimated fair value based on current market data.

**Operating Income**

We had operating income of $8.4 million and $29.9 million for the years ended December 31, 2006 and 2005, respectively. Although our revenues increased by $49.3 million in 2006 as compared to 2005, our operating income decreased due to stock option investigation expenses of $13.7 million, higher noncash stock compensation expense of $13.4 million and increased expenses driven by the investment of additional personnel in both our new and existing businesses.

**Non-operating Income and Expense**

*Realized Gains (Losses) on Sale of Investments, Net*

We recognized gains of $0.6 million and $1.9 million during the years ended December 31, 2006 and 2005, respectively, from the sale or dissolution of certain privately-held investments. The gain in 2005 was offset by an impairment loss of $2.1 million on other privately-held investments.

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*Interest Income and Expense*

Interest income is derived from our cash and cash equivalents and investments in marketable debt securities. Interest income increased in 2006 as compared to 2005 due to higher cash and investment balances prior to the October 2006 repayment of our convertible notes and, to a lesser extent, due to higher interest rates than in 2005.

Interest expense was $5.0 million and $3.1 million for 2006 and 2005, respectively. The increase in interest expense during 2006 was primarily due to the write off of $2.2 million of deferred debt issuance costs related to the $125.0 million Convertible Senior Notes that were repaid in October 2006 as well as interest incurred on our revolving credit facility during the fourth quarter of 2006.

**Income Taxes**

We recorded a tax provision of $1.3 million in 2006 representing an effective tax rate of 16%. In 2005, we recorded a tax benefit of $0.1 million resulting in an effective tax rate of 0%. (See Note 8, Income Taxes, in Item 8 Financial Statements and Supplementary Date in this Annual Report on Form 10-K for a reconciliation of expected tax expense calculated by applying the statutory federal income tax rate compared to actual tax expense for 2006 and 2005.)

At December 31, 2006, we had United States federal net operating losses of $482.4 million. These losses may be subject to limitations on their utilization due to change in ownership and will expire in varying amounts beginning in 2010 through 2026. We also had California state net operating losses of $166.5 million, which will expire in varying amounts beginning in 2013 through 2016. We also had cumulative foreign net operating losses of $90.0 million. Operating losses generated in 2006 for income tax purposes were primarily related to amortization of intangible assets and deductions related to employee stock option exercises. Management believes that sufficient uncertainty exists regarding the future realization of deferred tax assets and accordingly, a full valuation allowance has been provided against gross deferred tax assets for most jurisdictions.

We have potential future tax benefits, or deferred tax assets, associated with historical net operating losses and other future tax deductions that, because they were fully reserved by a valuation allowance, were not previously reported on our balance sheet. Management determined that the valuation allowance is appropriate based on its analysis of historical results and projected future net income. Based upon management s review of recent income trends and future projections, we believe that it is reasonably possible that we will release a significant portion of the valuation allowance in the near term. Any such release would result in recognizing a tax benefit that would increase net income in the period the allowance is released. Any valuation allowance release will have no impact on the amount of cash paid for income taxes.

**Discontinued Operations**

Discontinued operations represent the results of operations for our Computer Shopper business which was sold on February 2, 2006. Results in 2006 included a $0.8 million gain on the sale of this business, as well as a net operating loss of $0.8 million. Net operating loss from discontinued operations for the year ended December 31, 2005 was $9.1 million. The 2005 discontinued operations for Computer Shopper included impairment charges of $10.7 million, partially offset by operating profit of $1.6 million.

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***Year Ended December 31, 2005 vs. Year Ended December 31, 2004***

**Revenues**

Revenues for the years ended December 31, 2005 and 2004 were:

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | | 2005 | | | 2004 | |
| (in thousands) | Total | U.S. Media | International Media | Total | U.S. Media | International Media |
| Revenues: | | | | | | |
| Marketing services | $ 293,315 | $ 233,203 | $ 60,112 | $ 234,920 | $ 185,283 | $ 49,637 |
| Licensing, fees and users | 44,732 | 37,824 | 6,908 | 37,261 | 29,814 | 7,447 |
| | $ 338,047 | $ 271,027 | $ 67,020 | $ 272,181 | $ 215,097 | $ 57,084 |
| Increase over prior year | 24% | 26% | 17% | | | |
| As a Percentage of Revenues: | | | | | | |
| Marketing Services | 87% | 69% | 18% | 86% | 68% | 18% |
| Licensing, fees and users | 13% | 11% | 2% | 14% | 11% | 3% |
| | 100% | 80% | 20% | 100% | 79% | 21% |

*Total Revenues*

Total revenues were $338.0 million and $272.2 million for the years ended December 31, 2005 and 2004, respectively. Total revenues increased 24% in 2005 due to an increase in interactive revenues, which were comprised of marketing services revenues and licensing, fees and users revenues.

For the year ended December 31, 2005 as compared to prior year, revenues have increased for both the U.S. Media and the International Media segments. The increase in revenues for U.S. Media is primarily related to an increase in marketing services revenues combined with incremental revenues from acquisitions. The increase in revenues for the International Media segment is from growth due to acquisitions and an increase in interactive advertising revenues.

For the year ended December 31, 2005, $10.7 million of our U.S. Media revenues and $2.1 million of our International Media revenues, respectively, were derived from barter transactions. For the year ended December 31, 2004, $10.6 million of our U.S. Media revenues and $1.7 million of our International Media revenues, respectively, were derived from barter transactions.

*Marketing Services Revenues*

The increase in marketing services revenues of $58.4 million, or 25%, in 2005 compared to the prior year was primarily due to an increase in marketing spending by our customers, as well as the addition of new customers, and reflects growth in our content areas with significant growth in entertainment and technology.

*Licensing, Fees and Users Revenues*

The increase in our licensing, fees and users revenues of $7.5 million, or 20%, was primarily due to increased sales from our CNET Channel data licensing business.

**Operating Expenses**

| | Year Ended December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | | | | 2004 | | | |
| | | | Cash expense | | | | Cash expense | |
| (in thousands) | Operating Expense | Noncash expense | Cash expense | Percent of Revenue | Operating Expense | Noncash expense | Cash expense | Percent of Revenue |
| Operating expenses: | | | | | | | | |
| Cost of revenues | $ 152,215 | $ 1,664 | $ 150,551 | 45% | $ 133,469 | $ 2,431 | $ 131,038 | 48% |
| Sales and marketing | 78,940 | 743 | 78,197 | 23% | 71,530 | 988 | 70,542 | 26% |
| General and administrative | 48,192 | 3,937 | 44,255 | 13% | 43,803 | 5,572 | 38,231 | 14% |
| Depreciation | 17,331 | 17,331 | | | 19,604 | 19,604 | | |
| Amortization | 9,906 | 9,906 | | | 5,801 | 5,801 | | |
| Asset impairments | 1,613 | 1,613 | | | | | | |
| Total operating expenses | $ 308,197 | $ 35,194 | $ 273,003 | 81% | $ 274,207 | $ 34,396 | $ 239,811 | 88% |
| Increase over prior year | 12% | | 14% | | | | | |

*Cost of Revenues, Sales and Marketing, General and Administrative*

We refer to cash-related expenses as cost of revenues, sales and marketing and general and administrative expenses (excluding noncash stock compensation expense). The majority of our cash-related expenses are costs associated with employee compensation, benefits and facilities. The total increase in cash-related expenses was $33.2 million, or 14%. The increase related primarily to an increase in compensation and benefits as our average headcount increased by 16% from 2004 to 2005.

Noncash stock compensation expense included in our statements of operations was as follows:

| | Year Ended December 31, | |
|---|---|---|
| | **2005** | **2004** |
| **(in thousands)** | | |
| Cost of revenues | $ 1,664 | $ 2,431 |
| Sales and marketing | 743 | 988 |
| General and administrative | 3,937 | 5,572 |
| | $ 6,344 | $ 8,991 |

For the year ended December 31, 2005, the U.S. Media segment cash-related expenses were 77% of revenues compared to 84% in 2004, and the International Media segment cash-related expenses were 97% of revenues compared to 103% in 2004. The decrease in cash-related expenses as a percentage of revenues reflects improved operating margin resulting from revenue growth and cost control initiatives. The operating margins for our International Media segment showed improvement in 2005 but are lower than those of our U.S. Media due to the earlier stage of development of the online advertising markets in the countries in which we do business.

*Depreciation and Amortization*

The decrease in depreciation expense in 2005 is primarily due to additional depreciation expense of $3.5 million recorded in 2004 related to buildings and fixed assets in Switzerland, which were written down to their estimated fair value. The operations in Switzerland, which were the headquarters of our Channel Services operations, were transitioned to the United States in the second quarter of 2004. As part of that transition, we were attempting to sell these buildings. We reclassified the land and building to assets held for sale, which was subsequently reclassified to property and equipment in 2006.

The increase in amortization expense is primarily due to intangible assets acquired through the PCHome and HeyPix acquisitions during 2005, and the acquisition of Webshots in the latter half of 2004.

*Impairments*

In 2005, a charge of $1.6 million was taken related to an asset held for sale, which consists of a building we own in Switzerland. This asset was written down to its estimated fair value based on current market data.

**Operating Income**

We had operating income of $29.9 million for the year ended December 31, 2005 and we incurred an operating loss of $2.0 million for the year ended December 31, 2004. Our operating income increased primarily due our growth in revenues, partially offset by our investment in our new and existing businesses to fuel that growth.

**Non-operating Income and Expense**

*Realized Gains (Losses) on Sale of Investments, Net*

We recognized gains of $1.9 million and $16.6 million during the years ended December 31, 2005 and 2004, respectively, from the sale or dissolution of certain privately-held investments. These gains were offset by impairment losses of $2.1 million and $1.8 million on other privately-held investments for the years ended December 31, 2005 and 2004, respectively.

*Interest Income and Expense*

Interest income is derived from our cash and cash equivalents and investments in marketable debt securities. Interest income was $2.0 million and $1.9 million for 2005 and 2004, respectively.

Interest expense was primarily incurred on our convertible notes. Interest expense was $3.1 million and $6.1 million for 2005 and 2004, respectively. The decrease in interest expense in 2005 was due to the redemption of our $113.7 million 5% Convertible Senior Notes during 2024 from the proceeds of our $125.0 million 0.75% Senior Convertible Notes.

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**Income Taxes**

In both 2005 and 2004, we recorded a tax benefit of $0.1 million resulting in an effective of tax rate in of 0% and a benefit of 1%, respectively. (See Note 8, Income Taxes, of Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K for a reconciliation of expected tax expense calculated by applying the statutory federal income tax rate compared to actual tax expense for 2005 and 2004.)

**Discontinued Operations**

Discontinued operations represent the results of operations for our Computer Shopper business which was sold on February 2, 2006. Net operating loss from discontinued operations for 2005 was $9.1 million. Results in 2005 include an impairment charge of $10.7 million which was partially offset by an operating profit of $1.6 million. Net operating loss from discontinued operations for 2004 was $6.4 million. The 2004 discontinued operations included an impairment charge of $8.9 million, partially offset by an operating profit of $2.5 million.

***Liquidity and Capital Resources as of and for the Year Ended December 31, 2006***

When evaluating our overall cash position for the purpose of assessing our liquidity, we consider our cash and cash equivalents and short-term and long-term investments in marketable debt securities.

| (in thousands) | December 31, 2006 | December 31, 2005 | December 31, 2004 |
|---|---|---|---|
| Cash and cash equivalents | $ 31,327 | $ 55,895 | $ 29,560 |
| Short-term marketable debt securities | 30,372 | 41,591 | 22,193 |
| Long-term marketable debt securities | 13,915 | 12,432 | 22,199 |
| Total cash and investments | $ 75,614 | $ 109,918 | $ 73,952 |

We evaluate our liquidity primarily on the following key measurements:

- Net cash provided by operating activities
- Operating income before depreciation, amortization, impairments and stock compensation expense
- Free cash flow

Other key factors that impact our liquidity include:

- Capital expenditures
- Cash used for investments and acquisitions
- Debt obligations, including the repayment of principal and the payment of interest

Proceeds from stock options and employee stock purchase plans.

**Net Cash Provided by Operating Activities**

Net cash provided by operating activities for the years ended December 31, 2006, 2005 and 2004 was $64.0 million, $43.2 million and $11.0 million, respectively.

Net cash provided by operating activities for the year ended December 31, 2006 included net income of $6.8 million adjusted for noncash expenses including depreciation and amortization of $34.7 million, stock compensation expense of $19.8 million, impairment charges of $2.8 million and noncash interest of $1.6 million. These amounts were partially offset by $4.0 million used in operating activities primarily resulting from a $6.4 million increase in net accounts receivable at December 31, 2006 as compared to December 31, 2005 due to a growth in revenues during the fourth quarter of 2006 as compared to the fourth quarter of 2005. We anticipate we will continue to require cash for working capital purposes as our business expands.

Operating activities for the year ended December 31, 2005 included net income of $19.6 million adjusted for noncash expenses including depreciation and amortization of $27.4 million, impairments of $12.3 million and $6.3 million of stock compensation expense. Net cash provided by operations was partially offset by the use of cash for other operating activities of $24.9 million, primarily due to a $20.0 million increase net accounts receivable at December 31, 2005 as compared to December 31, 2004 due to the increase in revenues in 2005 as compared to 2004.

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Operating activities for the year ended December 31, 2004 included net income of $1.8 million adjusted for noncash expenses including depreciation and amortization of $25.6 million, stock compensation expense of $9.0 million and net gains on private investments of $14.8 million. Net cash provided by operations was partially offset by cash used for operating activities of $25.3 million primarily reflecting a $14.5 million increase in net accounts receivable at December 31, 2004 as compared to December 31, 2003 due to the increase in revenues in 2004 as compared to 2003.

**Net Cash Used in Investing Activities**

Net cash used in investing activities for the years ended December 31, 2006, 2005 and 2004 was $32.1 million, $40.7 million and $67.1 million, respectively, and primarily related to capital expenditures and cash paid for acquisitions.

*Capital Expenditures.* Capital expenditures for the year ended December 31, 2006 were $32.8 million. Capital expenditures for 2007 are expected to be between $35.0 million and $40.0 million, an increase over the prior year due to the investment in infrastructure to support the continued launch of new products and growth in users and usage.

*Acquisitions and Investments.* During 2006, cash paid for acquisitions was $14.5 million which included cash payments for eight acquisitions in 2006 and $1.4 million related to deferred consideration from acquisitions completed in prior years. The 2006 acquisitions also have $3.3 million of deferred consideration payable in 2007 and 2008. We regularly evaluate investment opportunities, and it is likely that we will make additional investments or acquisitions in the future.

During 2005, cash paid for acquisitions was $25.1 million which included six acquisitions in 2005 and cash payments of approximately $5.0 million related to deferred consideration from acquisitions completed in prior years.

*Release of Restrictions on Cash.* During 2005, CNET Networks obtained a new letter of credit for $15.0 million, which serves as a security deposit for a lease guarantee we have on facilities in New York City. This letter of credit did not require collateralization by a deposit in escrow, which was included in restricted cash, as did the previous letter of credit. Therefore, $15.2 million was released from restriction. (See Note 13, Commitments and Contingencies, of Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K.) Additionally, $2.3 million of cash restricted as collateral under certain letters of credit was released as those letters of credit were no longer required.

***Operating income before depreciation, amortization, impairments and stock compensation expense.***

The following table reconciles operating income before depreciation, amortization, impairments and stock compensation expense to operating income (loss) as calculated in accordance with GAAP for the years ended December 31, 2006, 2005 and 2004:

| | **Year Ended December 31,** | | |
|---|---|---|---|
| **(in thousands, except per share data)** | **2006** | **2005** | **2004** |
| Operating income (loss) | $ 8,397 | $ 29,850 | $ (2,026) |
| Stock compensation expense | 19,751 | 6,344 | 8,991 |
| Depreciation | 22,848 | 17,331 | 19,604 |
| Amortization of intangible assets | 11,896 | 9,906 | 5,801 |
| Impairments | 2,793 | 1,613 | |
| Operating income before depreciation, amortization, impairments and stock compensation expense | $ 65,685 | $ 65,044 | $ 32,370 |

We believe that operating income before depreciation, amortization, impairments and stock compensation expense is useful to management and investors as a supplement to our GAAP (accounting principles generally accepted in the United States) financial measures for evaluating the ability of the business to generate cash from operations. Depreciation and amortization are noncash items and include within them amounts related to past transactions and expenditures that are not necessarily reflective of the current cash or capital requirements of the business. Impairments and stock compensation expense are noncash items that do not reflect upon the ability of the business to generate cash from operations.

Management refers to operating income before depreciation, amortization, impairments and stock compensation expense in making operating decisions and for planning and compensation purposes. A limitation associated with this measure is that it does not reflect the costs of certain capitalized tangible and intangible assets used in generating revenues. Management compensates for these

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limitations by relying primarily on our GAAP financial measures, such as capital expenditures, and using operating income before depreciation, amortization, impairments and stock compensation expense only on a supplemental basis. Although depreciation and amortization are noncash charges, the capitalized assets being depreciated and amortized will often have to be replaced in the future, and operating income before depreciation, amortization, impairments and stock compensation expense does not reflect any cash requirements for such replacements. Similarly, our stock compensation reduces deferred compensation expense, a component of our stockholders equity, which has no impact on current or future cash. This measure also does not take into account interest expense, or the cash requirements necessary to service interest or principal payments on our debt. Nor does the measure reflect changes in, or cash requirements for, our working capital needs. Operating income before depreciation, amortization, impairments and stock compensation expense should be considered in addition to, and not as a substitute for, other measures of financial performance prepared in accordance with GAAP.

Excluding noncash charges consisting of depreciation, amortization, impairments and stock compensation expense, our operating income was $65.7 million and $65.0 million for the years ended December 31, 2006 and 2005, respectively. The increase in operating income before depreciation, amortization, impairments and stock compensation expense in 2006 as compared to 2005 was due to an increase in revenues partially offset by increased investment in additional personnel for both our new and existing businesses and costs of our stock option investigation.

Operating income before depreciation, amortization, impairments and stock compensation expense is a key liquidity measurement as it can be the primary driver of the cash provided by operating activities. It is also a measure used by the financial institution with which we have a $60.0 million credit facility in determining compliance with certain financial covenants required under this borrowing arrangement. Operating income before depreciation, amortization, impairments and stock compensation expense should be considered in addition to, and not as a substitute for, other measures of financial performance prepared in accordance with United States GAAP.

***Free cash flow***. Free cash flow is defined as net cash provided by operating activities less capital expenditures. Free cash flow for the year ended December 31, 2006 was $31.2 million (cash provided by operating activities of $64.0 million, less capital expenditures of $32.8 million). This compares to free cash flow for the year ended December 31, 2005 of $19.8 million (cash provided by operating activities of $43.2 million, less capital expenditures of $23.4 million).

We believe that free cash flow provides useful information about the ability of our business operations to generate cash after the purchase of property and equipment. A limitation of free cash flow is that it does not represent the total increase or decrease in the cash balance for the period due to activities such as acquisitions and debt or equity transactions. Free cash flow should be considered in addition to, and not as a substitute for, other measures of financial performance prepared in accordance with United States GAAP.

**Net Cash Provided by (used in) Financing Activities**

Net cash provided by (used in) financing activities for the years ended December 31, 2006, 2005 and 2004 was $(57.8) million, $24.8 million and $21.8 million, respectively.

Cash used in financing activities for the year ended December 31, 2006 was primarily due to the repayment of our $125.0 million 0.75% Convertible Senior Notes partially offset by proceeds from borrowings on a revolving credit facility of $60.0 million.

Financing activities for the year ended December 31, 2005, included the issuance of common stock through the exercise of stock options and the employee stock purchase plan, offset by the repayment of the outstanding balance on the revolving credit facility.

Financing activities for the year ended December 31, 2004 included proceeds from the exercise of stock options and shares issued in connection with our employee stock purchase plan of $9.9 million. Financing activities in 2004 also included net cash provided of $120.8 million from a debt offering of our 0.75% Convertible Senior Notes and $5.0 million of proceeds from borrowings on our revolving credit facility, offset by cash used of $113.7 million to redeem our 5.0% Senior Subordinated Notes.

**Debt and Cash Balances**

As of December 31, 2006, we had $78.3 million of outstanding indebtedness, of which $73.9 million was classified as current, which included $60.0 million outstanding on a line of credit due in October 2007. We were in compliance with all debt covenants at December 31, 2006 and expect to remain in compliance with these covenants through the term of the borrowing. As of December 31, 2006, we had long-term obligations outstanding under notes payable totaling $4.5 million comprised of $2.6 million of Swiss Mortgage notes payable, $1.3 million payable from an acquisition in 2006 and a $0.6 million note payable.

On September 12, 2006, we entered into a new credit agreement which expires in October 2007. Under the terms of this agreement, we can borrow up to an aggregate principal amount of $60.0 million, which can be drawn down as revolving loans or term loans. Interest rates applicable to amounts outstanding under this facility are at variable rates based on either the Federal Funds rate plus 0.5% or the LIBOR plus and applicable margin based on a ratio of our consolidated debt to earnings as defined in the agreement. The interest rate on this borrowing was 6.88% at December 31, 2006. Covenants under this credit facility require that we maintain certain liquidity ratios and minimum earnings before depreciation, amortization, interest, taxes, stock compensation expense and certain other charges.

On September 13, 2006, we announced that we had commenced a solicitation of consents from holders of our outstanding $125.0 million 0.75% Convertible Senior Notes due 2024. The consents were to waive and amend certain obligations under the indenture resulting from our failure to timely file with the SEC any required reports or filings. The prepared amendments and waivers pertained to our failure to timely file our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 and the possible delisting of our common stock from the Nasdaq Global Select Market.

On October 11, 2006, we modified and extended the solicitation of consents to offer holders a two-year extension of the call protection period so that such period would end on April 20, 2011 rather than April 20, 2009. The solicitation expired on October 18, 2006 and we did not receive a sufficient number of consents from holders to satisfy the 70% requisite consent threshold. On October 25, 2006, we received a notice of acceleration under the indenture from Wells Fargo Bank, National Association, the trustee for the holders of the 0.75% Convertible Senior Notes. The acceleration letter declared the principal amount outstanding under the 0.75% Convertible Senior Notes, together with any accrued and unpaid interest immediately due and payable. On October 30, 2006, we retired the entire $125.0 million balance of the 0.75% Convertible Senior Notes with existing cash and by fully drawing on the $60.0 million credit facility discussed above.

As of December 31, 2006, we had cash, cash equivalents and investments of $75.6 million. We have prepared a forecast for 2007 which is based on our current expectations regarding revenue growth and associated operating expense and capital spending levels. If our actual results should differ materially from our expectations, our liquidity may be adversely impacted. If that were to occur, we would take steps to adjust our operating costs and capital expenditures to levels necessary to support our anticipated business levels. We may also need to raise additional equity or borrow additional funds to achieve our longer-term business objectives. We cannot assure you, however, that such equity or borrowings will be available or, if available, will be at rates or prices which are acceptable to us. Our ability to raise such additional capital, however, will depend on market conditions at the time. In addition, our $60.0 million credit facility prohibits further borrowings which could impact our ability to fund acquisitions, support cash needed to fund our operations or to pay for capital purchases. We believe that our anticipated cash flows from operating activities coupled with existing cash and investment balances will be sufficient to fund our working capital, debt service and purchases of property, plant and equipment through December 31, 2007, including the $60.0 million outstanding on a one-year credit facility which expires in October 2007. The performance of our business is dependent on many factors and subject to risks and uncertainties as discussed under Risk Factors that May Affect Future Operating Performance in Item 1A Risk Factors of this Annual Report on Form 10-K.

**Obligations**

The following summarizes our contractual obligations at December 31, 2006, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

| (in thousands) | TOTAL | LESS THAN 1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN 5 YEARS |
|---|---|---|---|---|---|
| Long-term debt, including current portion | $ 18,348 | $ 13,850 | $ 2,064 | $ 200 | 2,234 |
| Non-cancellable operating lease obligations | 169,205 | 19,243 | 35,044 | 33,805 | 81,113 |
| | $ 187,553 | $ 33,093 | $ 37,108 | $ 34,005 | 83,347 |

On October 30, 2006, we retired the $125.0 million of Convertible Senior Notes with existing cash and by fully drawing on a $60.0 million, one-year credit facility due in October 2007. At December 31, 2006, our total indebtedness was $78.3 million.

**Off Balance Sheet Arrangements**

The following item is a contingency, which may affect our liquidity in future periods. In conjunction with the ZDNet acquisition in 2000, CNET Networks assumed a guarantee of the obligations of Ziff Davis Media Inc., an unaffiliated company and primary lessee, under a New York City office lease for a total of 399,773 square feet. This lease expires in 2019. The annual average cost per square foot is approximately thirty dollars over the remaining term of the lease. Ziff Davis Media Inc. currently occupies 144,682 square feet of this space. Ziff Davis Media Inc. subleases the remaining 205,951 square feet to The Bank of New York, FOJP Risk Management and Softbank, collectively. In addition, we currently sublease and occupy 49,140 square feet of the office space from Ziff Davis Media Inc. These leases and subleases currently cover the monthly lease payments.

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As of December 31, 2006, the total lease payments remaining until the end of the lease term were $148.2 million, excluding the amounts attributable to our sublease with respect to the floor we occupy. If the financial condition of any of the sublessees or the primary lessee, Ziff Davis Media, Inc., were to deteriorate and thereby result in an inability to make their lease payments, we would be required to make their lease payments under the guarantee. In addition, any termination of a sublease or any deterioration in the commercial real estate market in New York City could adversely impact the timing and lease rates received from new sub-lessees of this space. Any shortfalls in lease payments resulting from vacancies, including space currently occupied by us and Ziff Davis Media Inc., as well as any sub-lease rental rates below amounts contractually owed by Ziff Davis Media Inc., could adversely impact our financial results and could result in a significant use of cash.

In connection with that guarantee, we also have a letter of credit for $15.0 million outstanding as a security deposit. As there is no present obligation to make any payments in connection with this guarantee, CNET Networks has not recorded any liability for this guarantee in its financial statements.

***CRITICAL ACCOUNTING POLICIES AND ESTIMATES***

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions relating to the reporting of assets and liabilities, revenues and expenses and the disclosure of contingent liabilities. On an ongoing basis, we evaluate these estimates, including those related to revenue recognition, collectibility of receivables, stock compensation expense, goodwill and intangible assets, income taxes, and contingencies. We base our estimates on historical experience and on various other assumptions and other available information we believe to be reasonable under the circumstances, which form the basis for making judgments about revenues, expenses and the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

**Revenue recognition**

We recognize revenues in accordance with Securities and Exchange Commission Staff Accounting Bulletin 104, *Revenue Recognition*, and as such we recognize revenues once the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery of our obligations to our customer has occurred;
- The price to be charged to the buyer is fixed or determinable; and
- Collectibility of the fees to be charged is reasonably assured.

We have several revenue streams. For each revenue stream, evidence of the arrangement, delivery and pricing may be different. For all revenue streams, we determine that collectibility is reasonably assured through a standardized credit review to determine each customer s credit worthiness.

*Marketing Services*

We recognize revenues from the sale of impression-based advertisements on our online network in the period in which the advertisements are delivered. The arrangements are evidenced by insertion orders that stipulate the types of advertising to be delivered and pricing. Our customers are billed based on pricing as determined on the insertion order, which may include certain discounts from list price. No amounts are subject to refund. When recognizing revenues, any discounts granted are evenly applied to each type of advertisement purchased in the insertion order.

In certain arrangements, we sell multiple deliverables to customers as part of a multiple-element arrangement. We consider these arrangements single units of accounting, and revenues are recognized in these arrangements on a proportional performance basis as we deliver on our obligations.

We refer to the fees charged to merchants based on the number of users who click on an advertisement or text link to visit the websites of our search, merchant, download or white paper partners as activity-based advertising. The arrangements for activity-based advertising are evidenced by a contract that stipulates the fee per activity. The fee becomes fixed and determinable upon a user clicking on an advertisement. These revenues are recognized in the period in which the activity occurs, and are not subject to refund.

We trade advertising on our Internet sites in exchange for marketing services of other companies, referred to as barter revenues. These revenues are recognized in the period in which the advertisements are delivered based on the fair market value of the advertising delivered. We determine the fair market value of the advertising delivered based upon amounts charged for similar advertising in non-barter arrangements within the previous six-month period. We also ensure that the value of barter delivered in on any site does not exceed the value of cash based revenues for that site in the same period.

*Licensing, Fees and Users*

Revenues for subscriptions to our Internet sites and product databases are recognized on a straight-line basis over the term of the subscription. We complete our obligation to customers for these arrangements by granting them access to our sites or databases. Upon execution of a contract, billing and commencement of the services, we record deferred revenues for the fee charged. These deferred revenues are recognized on a straight-line basis over the period of the arrangement. The amounts under contract are not refundable after the customer has used the service.

*Publishing*

Advertising revenues from our print publications are recognized in the month that the related publications become available at newsstands. Newsstand revenues from our print publications are recognized when the publications are delivered to the newsstand at which time a reserve is recorded against the value of the publications delivered based on the number of magazines that we expect to be returned. To ensure these reserves are adequate, we review the sell-through history of the publications on a monthly basis.

Significant contract interpretation is sometimes required to determine the appropriate accounting for our revenue transactions including: (1) whether an arrangement exists; (2) how the arrangement consideration should be allocated among potential multiple elements; (3) when to recognize revenue on the deliverables; (4) whether all elements of the arrangement have been delivered; (5) whether the arrangements should be reported gross as a principal versus net as an agent; and (6) whether we receive a separately identifiable benefit from purchase arrangements with our customers for which we can reasonably estimate fair value. In addition, our revenue recognition policy requires an assessment as to whether collection is reasonably assured, which inherently requires us to evaluate the creditworthiness of our customers. Changes in judgments on these assumptions and estimates could materially impact the timing or amount of revenue recognition.

**Collectibility of receivables**

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. We base our allowances on periodic assessment of our customers liquidity and financial condition through credit rating agency reports, financial statement review and analysis and historical collection trends. If the financial condition of our customers were to deteriorate and thereby result in an inability to make payments, additional allowances would be required. Our allowance for doubtful accounts amounted to $6.9 million, or 7% of gross receivables at December 31, 2006 and $7.4 million, or 8% of gross receivables at December 31, 2005. The lower percentage of the allowance for doubtful accounts as a percent of gross accounts receivable at December 31, 2006 as compared to December 31, 2005 was based on improvement in certain accounts receivable metrics, most notably the aging of our receivable portfolio.

Advertising agencies account for a significant portion of our net revenues and accounts receivable balances and comprise several individually large accounts. If the credit exposure associated with a large advertising relationship increased, affecting its ability to make payments, an additional provision for doubtful accounts may be required. Historically, we have not experienced significant losses on trade receivables related to any particular industry or geographic region.

**Stock compensation expense**

On January 1, 2006, we adopted Statement of Financial Accounting Standards 123 (revised 2004), *Share-Based Payment*, (SFAS 123(R)) which requires the measurement and recognition of compensation expense for all share-based awards made to our employees and directors including employee stock options and shares issued through our employee stock purchase plan based on estimated fair values.

We use the Black-Scholes pricing model in our determination of the compensation expense associated with share-based awards. Our determination of estimated fair value of share-based awards is affected by our stock price as well as assumptions regarding certain highly complex and subjective variables. These variables include, but are not limited to our expected stock price volatility over the expected term of the awards and actual and projected employee stock option exercise behaviors. The use of an option pricing model requires the use of extensive actual employee exercise behavior data and the use of a number of complex assumptions including expected volatility, risk-free interest rate, expected dividends and expected life of options.

Our computation of expected volatility is based on a combination of historical and implied stock price volatility consistent with SFAS 123(R) and the Securities and Exchange Commission s Staff Accounting Bulletin 107. Prior to the first quarter of fiscal 2006, we used our historical stock price volatility in accordance with SFAS 123 for purposes of our pro forma information. The selection of

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the implied volatility approach was based upon our assessment that a mix of historical and implied volatility is more representative of future stock price trends than historical volatility.

The risk-free interest rate assumption is based upon U.S. Treasury bond rates appropriate for the term of our employee stock options. The dividend yield assumption is based on our history and expectation of dividend payouts.

The expected term of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and is based on the historical average holding period of exercised options and the expected holding period of outstanding shares.

If factors change and we employ different assumptions in the application of SFAS 123(R) in future periods, the compensation expense that we record under SFAS 123(R) may differ significantly from what we have recorded in the current period.

See Note 9, Stock-Based Compensation, in Item 8 Financial Statements and Supplementary Data of this Annual Report on Form 10-K for further information regarding the SFAS 123(R) disclosures.

**Goodwill and Long-Lived Assets**

Goodwill of a reporting unit is reviewed for impairment if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below the unit s carrying amount. Conditions that indicate that impairment of goodwill should be evaluated include, but are not limited to, a sustained decrease in our market value or an adverse change in our business climate as a whole or for a particular reporting unit within CNET Networks. Impairment of a reporting unit s goodwill is evaluated based on a comparison of the reporting unit s carrying value to the fair value of the reporting unit. The evaluation is prepared based on our current and projected performance for each identified reporting unit. In the application of these methodologies, we are required to make estimates of future operating trends and judgments on discount rates and other variables. Actual future results and other assumed variables could differ from these estimates, including changes in the economy, the business environment in which we operate and/or our own relative performance. Any differences in actual results compared to our estimates could result in further future impairments. Even if there has not been an indicator of impairment, we evaluate goodwill for impairment on at least an annual basis, with August 31 having been established as the date on which this annual review takes place.

We depreciate or amortize long-lived assets, including property and equipment and other amortizable intangible assets, over their estimated useful lives. We record an impairment charge on these assets when we determine that their carrying value may not be recoverable. The carrying value is not recoverable if it exceeds the undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Based on the existence of one or more indicators of impairment, we measure any impairment of long-lived assets based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our business model. Our estimates of future cash flows attributable to our long-lived assets require significant judgment based on our historical and anticipated results and are subject to many factors. Different assumptions and judgments could materially affect the calculation of the fair value of our long-lived assets which could trigger impairment.

**Fair Value**

Estimates are used in the determination of the fair value of our intangible assets and reporting units to evaluate whether impairment exists at balance sheet dates. The fair value is the amount at which that asset or reporting unit could be bought or sold in a current transaction between willing parties. Therefore, quoted market prices in active markets are the best evidence of fair value and should be used when available. If quoted market prices are not available, the estimate of fair value is based on the best information available, including prices for similar assets and the use of other valuation techniques. CNET Networks generally consults with an independent external valuation expert to determine fair value. Valuation techniques include present value analysis, multiples of earnings or revenue or a similar performance measure. The use of these techniques involve assumptions by management about factors that are highly uncertain and can result in a range of values, including future cash flows, the appropriate discount rate and other factors and inputs. Different assumptions for these inputs or valuation methodologies could create materially different results.

Estimates are also used in the course of acquisitions to determine the fair value of the assets acquired and liabilities assumed. If any intangible assets are identified, depending on the type of asset and the complexity of determining its fair value, CNET Networks either consults with an independent external valuation expert or develops the fair value internally, using an appropriate valuation technique. Valuation techniques used can be a combination of or an element of cost, market price or net present value, depending on the type of asset and the availability of information. Although the management of CNET Networks believes that its estimates are appropriate, changes in assumptions or circumstances could require changes in the analysis. This could lead to additional impairment charges in the future.

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**Income Taxes**

Estimates and judgments are required in the calculation of certain tax liabilities and in the determination of the recoverability of certain of the deferred tax assets, which arise from net operating losses, tax carryforwards and temporary differences between the tax and financial statement recognition of revenue and expense. SFAS 109, *Accounting for Income Taxes*, also requires that deferred tax assets be reduced by a valuation allowance, if based on the weight of available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods.

In evaluating our ability to recover our deferred tax assets, in full or in part, we consider all available positive and negative evidence including our past operating results, the existence of cumulative losses in the most recent fiscal years and our forecast of future taxable income on a jurisdiction by jurisdiction basis. In determining future taxable income, we are responsible for assumptions utilized including the amount of state, federal and international pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we are using to manage the underlying businesses. Cumulative losses incurred in the United States and certain foreign jurisdictions in recent years represented sufficient negative evidence to require valuation allowances in these jurisdictions, which we intend to maintain until sufficient positive evidence exists to support the reversal of the valuation allowance. Future reversals or increases to our valuation allowance could have a significant impact on our future earnings.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions. We recognize potential liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes and interest will be due. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when we determine the liabilities are no longer necessary. If our estimate of tax liabilities proves to be less than the ultimate assessment, a further charge to expense would result.

**Contingencies**

We evaluate whether a liability must be recorded for contingencies based on whether a liability is probable and estimable. Our most significant contingency is related to our lease guarantee for office space in New York City (as described in Note 13, Commitments and Contingencies, of Item 8 Financial Statements and Supplementary Data in this Annual Report on Form 10-K). If the financial condition of any of the sublessees or the primary lessee were to deteriorate and thereby result in an inability to make their lease payments, we would be required to make additional lease payments under the guarantee. In addition, any expiration of any sublease and the potential resulting vacancy along with the inability of Ziff Davis Media Inc., the primary lessee, to cover the vacancy lease payments could result in CNET Networks being required to make lease payments on those vacancies. As of December 31, 2006, the total lease payments remaining until the end of the lease term were $148.2 million, excluding the amounts attributable to our sublease with respect to the floor we occupy.

***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. We do not anticipate a material adjustment to the liability for unrecognized tax benefits and associated interest and penalties as a result of the implementation of FIN 48.

On September 15, 2006, the FASB issued SFAS 157, *Fair Value Measurements* ( SFAS 157 ), which establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. Current industry practice will change as a result of SFAS 157 s definition of fair value, methods for measuring fair value and expanded disclosure regarding fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15 2007 and interim periods within those fiscal years. We are currently evaluating the provisions of SFAS 157.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to the impact of interest rate changes and changes in the market values of our investments. All market risk sensitive interments were entered into for non-trading purposes.

**Interest Rate Risk**

We have interest rate risk with respect to our credit facility under which we can borrow up to $60.0 million. Interest rates applicable

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to amounts outstanding under this facility are at variable rates based on either the Federal Funds rate plus 0.5% or the LIBOR plus an applicable margin based on a ratio of our consolidated debt to earnings as defined in the agreement. A change in interest rates on this variable rate debt impacts the interest incurred and cash flows but does not impact the fair value of the instrument.

We also have exposure to market rate risk for changes in interest rates related primarily to our available-for-sale investment portfolio. We have not used derivative financial instruments in our investment portfolio. We invest our excess cash in debt instruments of the United States Government and its agencies and in high-quality corporate issuers that, by policy, limit the amount of credit exposure to any one issuer. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. We mitigate interest rate volatility by investing in instruments with relatively short maturities. We ensure the safety and preservation of our invested funds by placing these investments with high credit-quality issuers. We maintain portfolio liquidity by ensuring that underlying investments have active secondary or resale markets. Our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates. As of December 31, 2006, net unrealized losses on these investments were not material.

**Investment Risk**

We have and may continue to invest in equity instruments of privately-held, online media information technology companies for business and strategic purposes. These investments are included in other long-term assets and are accounted for under the cost method, as we do not have the ability to exert significant influence over the investee or their operations. For these non-quoted investments, our policy is to regularly review the assumptions underlying the operating performance and cash flow forecasts in assessing the carrying values. We identify and record impairment losses on investments when events and circumstances indicate that such assets might be impaired. The carrying value of investments in privately held companies was $9.2 million at December 31, 2006 and is a component of other long-term assets on our consolidated balance sheets.

**Foreign Currency Risk**

The revenues and expenses associated with our overseas operations are exposed to foreign currency risk. To the extent the United States dollar weakens against foreign currencies, the translation of these foreign-currency denominated transactions results in increased revenues and expenses. When the United States dollar strengthens against foreign currencies, revenues and operating expenses will decrease for our foreign operations. As most of our foreign operations generate moderate operating profits, any changes in revenues resulting for foreign currency fluctuations would be somewhat negated by offsetting changes in expenses resulting from changes in exchange rates. Therefore, any impact on net income would not be expected to be material.

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**Item 8. Financial Statements and Supplementary Data**
**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

CNET Networks, Inc.:

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that CNET Networks, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). CNET Networks, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that CNET Networks, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, CNET Networks, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CNET Networks, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2006 financial statements of CNET Networks, Inc. and our report dated February 28, 2007 expressed an unqualified opinion.

/s/ KPMG LLP

San Francisco, California
February 28, 2007

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

CNET Networks, Inc.:

We have audited the accompanying consolidated balance sheets of CNET Networks, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss) and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we also have audited the accompanying financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CNET Networks, Inc. as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with United States generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financials statements, the Company changed its method of accounting for stock-based compensation upon adoption of Financial Accounting Standards No. 123(R), Share-Based Payment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of CNET Networks, Inc. s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2007 expressed an unqualified opinion on management s assessment of, and an unqualified opinion on the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

San Francisco, California
February 28, 2007

**CNET NETWORKS, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except per share data)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2006** | **2005** | **2004** |
| Revenues | $ 387,376 | $ 338,047 | $ 272,181 |
| Operating expenses: | | | |
| Cost of revenues (1) | 170,328 | 152,215 | 133,469 |
| Sales and marketing (1) | 98,283 | 78,940 | 71,530 |
| General and administrative (1) | 59,086 | 48,192 | 43,803 |
| Stock option investigation | 13,745 | | |
| Depreciation | 22,848 | 17,331 | 19,604 |
| Amortization of intangible assets | 11,896 | 9,906 | 5,801 |
| Asset impairments | | 1,613 | |
| Goodwill impairments | 2,793 | | |
| Total operating expenses | 378,979 | 308,197 | 274,207 |
| Operating income (loss) | 8,397 | 29,850 | (2,026) |
| Non-operating income (expense): | | | |
| Realized gains on sales of investments | 558 | 1,913 | 16,605 |
| Impairments of privately held investments | | (2,083) | (1,753) |
| Interest income | 4,871 | 1,989 | 1,872 |
| Interest expense | (5,023) | (3,086) | (6,149) |
| Other, net | (596) | 19 | (389) |
| Total non-operating income (expense) | (190) | (1,248) | 10,186 |
| Income before income taxes | 8,207 | 28,602 | 8,160 |
| Income tax expense (benefit) | 1,334 | (80) | (83) |
| Income from continuing operations | 6,873 | 28,682 | 8,243 |
| Discontinued operations: | | | |
| Loss from discontinued operations | (37) | (9,099) | (6,404) |
| Net income | $ 6,836 | $ 19,583 | $ 1,839 |
| Basic net income per share | $ 0.05 | $ 0.13 | $ 0.01 |
| Diluted net income per share | $ 0.04 | $ 0.13 | $ 0.01 |
| Shares used in calculating basic net income per share | 149,076 | 146,030 | 142,162 |
| Shares used in calculating diluted net income per share | 152,313 | 152,615 | 148,017 |

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

| **(in thousands)** | | | |
|---|---|---|---|
| Cost of revenues | $ 7,709 | $ 1,664 | $ 2,431 |
| Sales and marketing | 3,604 | 743 | 988 |
| General and administrative | 8,438 | 3,937 | 5,572 |
| | $ 19,751 | $ 6,344 | $ 8,991 |

The accompanying notes are an integral part of these financial statements.

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**CNET NETWORKS, INC.**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except per share data)**

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 31,327 | $ 55,895 |
| Investments in marketable debt securities | 30,372 | 41,591 |
| Accounts receivable, net of allowance for doubtful accounts of $6,918 at December 31, 2006 and of $7,448 at December 31, 2005 | 89,265 | 85,312 |
| Other current assets | 10,512 | 14,337 |
| Total current assets | 161,476 | 197,135 |
| Investments in marketable debt securities | 13,915 | 12,432 |
| Restricted cash | 2,200 | 2,248 |
| Property and equipment, net | 72,625 | 57,765 |
| Other assets | 15,554 | 18,948 |
| Intangible assets, net | 34,978 | 37,380 |
| Goodwill | 133,059 | 129,658 |
| Total assets | $ 433,807 | $ 455,566 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 10,055 | $ 8,330 |
| Accrued liabilities | 80,335 | 52,140 |
| Revolving credit facility | 60,000 | |
| Current portion of long-term debt | 13,850 | 2,652 |
| Total current liabilities | 164,240 | 63,122 |
| Non-current liabilities: | | |
| Long-term debt | 4,498 | 139,114 |
| Other liabilities | 726 | 794 |
| Total liabilities | 169,464 | 203,030 |
| Stockholders equity: | | |
| Common stock; $0.0001 par value; 400,000 shares authorized; 151,315 issued at December 31, 2006 and 150,195 issued at December 31, 2005 | 15 | 15 |
| Additional paid-in-capital | 2,857,238 | 2,857,175 |
| Deferred stock compensation | | (2,871) |
| Accumulated other comprehensive loss | (11,357) | (13,394) |
| Treasury stock, at cost, 1,510 shares at December 31, 2006 and 2005 | (30,453) | (30,453) |
| Accumulated deficit | (2,551,100) | (2,557,936) |
| Total stockholders equity | 264,343 | 252,536 |
| Total liabilities and stockholders equity | $ 433,807 | $ 455,566 |

The accompanying notes are an integral part of these financial statements.

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**CNET NETWORKS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

| | Year Ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 6,836 | $ 19,583 | $ 1,839 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 34,744 | 27,405 | 25,581 |
| Asset impairments | 2,793 | 12,257 | 8,931 |
| Asset disposals | 292 | 133 | 433 |
| Deferred taxes | 336 | 159 | 153 |
| Noncash interest | 1,580 | 290 | 733 |
| Loss on debt retirement | | | 950 |
| Noncash stock compensation | 19,751 | 6,344 | 8,991 |
| Provision for doubtful accounts | 2,475 | 1,769 | 3,513 |
| Gain on sale of business, net | (298) | | |
| Realized gains on investments | (558) | (1,913) | (16,605) |
| Realized losses on investments | 10 | 2,083 | 1,753 |
| Changes in operating assets and liabilities, net of acquisitions: | | | |
| Accounts receivable | (6,392) | (19,958) | (14,463) |
| Other assets | (2,752) | 1,341 | (2,375) |
| Accounts payable | 1,400 | 1,415 | (1,953) |
| Accrued liabilities | 3,853 | (7,620) | (4,922) |
| Other liabilities | (59) | (60) | (1,575) |
| Net cash provided by operating activities | 64,011 | 43,228 | 10,984 |
| Cash flows from investing activities: | | | |
| Purchases of marketable debt securities | (45,546) | (58,803) | (40,108) |
| Proceeds from sales of marketable debt securities | 57,620 | 49,049 | 47,522 |
| Proceeds from sales of investments in privately held companies | 3,058 | 1,913 | 18,022 |
| Cash paid for investments in privately held companies | | (1,934) | (2,600) |
| Release of restricted funds, net | 69 | 17,526 | |
| Cash paid for acquisitions, net of cash acquired | (14,482) | (25,105) | (75,635) |
| Capital expenditures | (32,833) | (23,359) | (14,339) |
| Net cash used in investing activities | (32,114) | (40,713) | (67,138) |
| Cash flows from financing activities: | | | |
| Payments received on stockholders notes | | | 137 |
| Net proceeds from employee stock purchase plan | 780 | 1,266 | 1,032 |
| Net proceeds from exercise of stock options | 6,500 | 29,417 | 8,874 |
| Proceeds from borrowings on revolving credit facility | 60,000 | | 5,000 |
| Proceeds from borrowings | | | 120,800 |
| Principal payments on borrowings and debt retirements | (125,096) | (5,873) | (114,032) |
| Net cash provided by (used in) financing activities | (57,816) | 24,810 | 21,811 |
| Net increase (decrease) in cash and cash equivalents | (25,919) | 27,325 | (34,343) |
| Effect of exchange rate differences on cash and cash equivalents | 1,351 | (990) | (2,010) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash and cash equivalents at the beginning of the period | | 55,895 | | 29,560 | | 65,913 |
| Cash and cash equivalents at the end of the period | $ | 31,327 | $ | 55,895 | $ | 29,560 |
| Supplemental disclosure of cash flow information: | | | | | | |
| Interest paid | $ | 2,406 | $ | 2,553 | $ | 5,470 |
| Income taxes paid | $ | 1,392 | $ | 2,993 | $ | 1,802 |
| Supplemental disclosure of noncash transactions: | | | | | | |
| Issuance of common stock for acquisitions | $ | | $ | 1,956 | $ | 500 |
| Issuance of notes payable for acquisitions | $ | 1,500 | $ | 3,500 | $ | 10,000 |

The accompanying notes are an integral part of these financial statements.

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**CNET NETWORKS, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND**

**COMPREHENSIVE INCOME (LOSS)**

**(in thousands, except share data)**

| | Common Stock | | Notes Receivable from Stockholders | Deferred Stock Compensation | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | | Accumulated Deficit | Total Stockholders Equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | | | | | **Shares** | **Amount** | | |
| Balances as of December 31, 2003 | 142,100 | $ 14 | $ (137) | $ (15,821) | $ 2,811,959 | $ (14,338) | (1,108) | $ (30,428) | $ (2,579,358) | $ 171,891 |
| Exercise of stock options | 2,158 | | | | 8,866 | | | | | 8,866 |
| Employee stock purchase plan | 147 | | | | 1,032 | | | | | 1,032 |
| Stock compensation amortization | | | | 8,991 | | | | | | 8,991 |
| Deferred stock compensation | | | | (2,891) | 2,891 | | | | | |
| Forfeitures | | | | 1,261 | (1,261) | | | | | |
| Comprehensive loss: | | | | | | | | | | |
| Net unrealized losses on investments, net | | | | | | (375) | | | | (375) |
| Deferred taxes related to unrealized holding gains (losses) | | | | | | 244 | | | | 244 |
| Foreign currency translation adjustment | | | | | | 1,817 | | | | 1,817 |
| Common stock issued for acquisitions | 50 | | | | | | | | | |