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

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 deliv