

CNET NETWORKS INC
Form 10-Q
November 05, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2007

OR

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

Commission file number 0-20939

CNET Networks, Inc.

(Exact name of registrant as specified in its charter)

Delaware **13-3696170**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)
235 Second Street, San Francisco, CA 94105

(Address of principal executive offices including zip code)

Telephone Number (415) 344-2000

(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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As of October 31, 2007 there were 151,973,545 shares of the registrant's common stock outstanding.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues:	\$ 99,498	\$ 93,295	\$ 288,786	\$ 269,322
Operating expenses:				
Cost of revenues (1)	41,865	41,599	127,090	122,150
Sales and marketing (1)	27,334	23,290	80,665	70,942
General and administrative (1)	17,257	14,910	49,286	43,292
Stock option investigation and related matters, net	406	5,825	7,694	7,226
Depreciation	6,785	5,880	21,265	15,967
Amortization of intangible assets	3,305	3,203	9,734	8,652
Goodwill impairments	19,009	1,418	19,009	1,418
Total operating expenses	115,961	96,125	314,743	269,647
Operating loss	(16,463)	(2,830)	(25,957)	(325)
Non-operating income (expense):				
Realized gains on investments	590	58	2,190	558
Interest income	1,019	1,565	2,591	3,997
Interest expense	(1,231)	(696)	(3,904)	(2,014)
Other, net	862	(7)	940	50
Total non-operating income	1,240	920	1,817	2,591
Income (loss) from continuing operations before income taxes	(15,223)	(1,910)	(24,140)	2,266
Income tax expense	1,426	420	1,703	701
Income (loss) from continuing operations	(16,649)	(2,330)	(25,843)	1,565
Loss from discontinued operations				(37)
Net income (loss)	\$ (16,649)	\$ (2,330)	\$ (25,843)	\$ 1,528
Basic net income (loss) per share	\$ (0.11)	\$ (0.02)	\$ (0.17)	\$ 0.01
Diluted net income (loss) per share	\$ (0.11)	\$ (0.02)	\$ (0.17)	\$ 0.01
Shares used in calculating basic net income (loss) per share	151,665	149,792	151,127	148,981

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Shares used in calculating diluted net income (loss) per share	151,665	149,792	151,127	152,506
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(1) Includes stock compensation expense, which was allocated as follows:

Cost of revenues	\$ 962	\$ 2,122	\$ 3,936	\$ 5,996
Sales and marketing	544	1,003	1,961	2,775
General and administrative	3,179	1,879	8,009	5,622

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 54,901	\$ 31,327
Investments in marketable debt securities	15,976	30,372
Accounts receivable, net of allowance for doubtful accounts of \$7,051 and \$6,918 at September 30, 2007 and December 31, 2006, respectively	79,136	89,265
Other current assets	11,051	10,512
Total current assets	161,064	161,476
Investments in marketable debt securities	509	13,915
Restricted cash	1,586	2,200
Property and equipment, net	71,754	72,625
Other assets	14,167	15,554
Intangible assets, net	37,592	34,978
Goodwill	132,525	133,059
Total assets	\$ 419,197	\$ 433,807
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 5,747	\$ 10,055
Accrued liabilities	55,950	80,335
Revolving credit facility	60,000	60,000
Current portion of long-term debt	3,338	13,850
Total current liabilities	125,035	164,240
Non-current liabilities:		
Long-term debt	2,808	4,498
Other liabilities	4,133	726
Total liabilities	131,976	169,464
Commitments and contingencies		
Stockholders' equity:		
Common stock; \$0.0001 par value; 400,000 shares authorized; 151,812 and 151,315 issued at September 30, 2007 and December 31, 2006, respectively	15	15
Additional paid-in-capital	2,903,768	2,857,238
Accumulated other comprehensive loss	(9,427)	(11,357)
Treasury stock, at cost; 1,510 shares at September 30, 2007 and December 31, 2006	(30,453)	(30,453)
Accumulated deficit	(2,576,682)	(2,551,100)
Total stockholders' equity	287,221	264,343

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Total liabilities and stockholders' equity	\$ 419,197	\$ 433,807
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See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ (25,843)	\$ 1,528
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	30,999	24,618
Fair value remeasurement of stock option liability instruments	(702)	
Noncash stock compensation expense	13,906	14,393
Impairments	19,009	1,418
Other noncash items, net	(141)	(427)
Provision for doubtful accounts	1,624	1,831
Gain on sale of business, net		(778)
Gains on sales of marketable securities and privately held investments	(2,190)	(558)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	10,001	8,369
Other assets	(291)	1,221
Accounts payable	(4,719)	(1,128)
Accrued liabilities	(1,947)	2,809
Other long-term liabilities	1,011	(78)
Net cash provided by operating activities	40,717	53,218
Cash flows from investing activities:		
Purchase of marketable debt securities	(9,359)	(44,546)
Proceeds from sales of marketable debt securities	38,735	39,450
Release of restricted cash	604	70
Proceeds from sales of Investments in privately held companies	2,190	3,058
Cash paid for other intangible assets	(428)	
Cash paid for acquisitions, net of cash acquired	(39,778)	(9,666)
Sale of leasehold improvements	2,349	
Purchases of property and equipment	(22,106)	(26,891)
Net cash used in investing activities	(27,793)	(38,525)
Cash flows from financing activities:		
Proceeds from issuance of stock	10,489	7,280
Principal payments on borrowings	(51)	(47)
Net cash provided by financing activities	10,438	7,233
Net increase in cash and cash equivalents	23,362	21,926
Effect of exchange rate changes on cash and cash equivalents	212	865
Cash and cash equivalents at the beginning of the period	31,327	55,895

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