

SOHU COM INC  
Form 10-Q  
November 06, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015**

**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 0-30961**

**Sohu.com Inc.**

**(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)**

**Delaware**  
**(STATE OR OTHER JURISDICTION OF**  
**INCORPORATION OR ORGANIZATION)**

**98-0204667**  
**(I.R.S. EMPLOYER**  
**IDENTIFICATION NUMBER)**

**Level 18, SOHU.com Media Plaza**

**Block 3, No. 2 Kexueyuan South Road, Haidian District**

**Beijing 100190**

**People's Republic of China**

**(011) 8610-6272-6666**

**(Address, including zip code, of registrant's principal executive offices**  
**and 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 such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

<b>Class</b>	<b>Outstanding at September 30, 2015</b>
<b>Common stock, \$.001 par value</b>	<b>38,637,052</b>

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SOHU.COM INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)****(In thousands, except par value)**

	As of	
	December 31, 2014	September 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 876,340	\$ 1,073,879
Restricted time deposits	282,186	241,680
Short-term investments	191,577	260,431
Accounts receivable, net	230,401	285,296
Prepaid and other current assets	116,704	161,764
Held-for-sale assets	0	10,080
<b>Total current assets</b>	<b>1,697,208</b>	<b>2,033,130</b>
Fixed assets, net	540,778	523,867
Goodwill	303,426	155,018
Long-term investments, net	24,067	65,480
Intangible assets, net	110,691	62,870
Restricted time deposits	144,562	139,407
Prepaid non-current assets	8,933	6,772
Other assets	37,344	32,590
<b>Total assets</b>	<b>\$ 2,867,009</b>	<b>\$ 3,019,134</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities ( VIEs ) without recourse to the Company of \$3,495 and \$33,095, respectively, as of December 31, 2014 and September 30, 2015)	\$ 127,758	\$ 131,782
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of \$78,051 and \$75,198, respectively, as of December 31, 2014 and September 30, 2015)	239,231	317,345
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of \$53,641 and \$48,028, respectively, as of December 31, 2014 and September 30,	127,740	137,583

2015)

Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$6,300 and \$10,130, respectively, as of December 31, 2014 and September 30, 2015)	108,741	86,822
Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of \$10,767 and \$20,974, respectively, as of December 31, 2014 and September 30, 2015)	33,380	50,403
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$1,669 and \$1,559, respectively, as of December 31, 2014 and September 30, 2015)	22,356	24,096

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Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2014 and September 30, 2015)	25,500	25,500
Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of \$30,893 and \$107,107, respectively, as of December 31, 2014 and September 30, 2015)	105,644	154,085
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of \$3,935 and nil, respectively, as of December 31, 2014 and September 30, 2015)	3,935	0
Held-for-sale liabilities (including held-for-sale liabilities of consolidated VIEs without recourse to the Company of nil and \$1,251, respectively, as of December 31, 2014 and September 30, 2015)	0	1,251
<b>Total current liabilities</b>	<b>794,285</b>	<b>928,867</b>
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of \$21,534 and \$23,503 as of December 31, 2014 and September 30, 2015)	5,143	4,257
Long-term bank loans (including long-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2014 and September 30, 2015)	344,500	319,000
Long-term taxes payable (including long-term taxes payable of consolidated VIEs without recourse to the Company of nil as of both December 31, 2014 and September 30, 2015)	24,829	24,765
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$1,799 and nil, respectively, as of December 31, 2014 and September 30, 2015)	7,417	12,666
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of \$1,929 and nil, respectively, as of December 31, 2014 and September 30, 2015)	1,929	0
<b>Total long-term liabilities</b>	<b>383,818</b>	<b>360,688</b>
<b>Total liabilities</b>	<b>1,178,103</b>	<b>1,289,555</b>
<b>Commitments and contingencies</b>		
<b>SHAREHOLDERS EQUITY</b>		
Sohu.com Inc. shareholders equity:		
Common stock: \$0.001 par value per share (75,400 shares authorized; 38,507 shares and 38,637 shares, respectively, issued and outstanding as of December 31, 2014 and September 30, 2015)	44	45
Additional paid-in capital	650,148	783,801
Treasury stock (5,889 shares as of both December 31, 2014 and September 30, 2015)	(143,858)	(143,858)
Accumulated other comprehensive income	109,402	72,868
Retained earnings	585,925	566,727
<b>Total Sohu.com Inc. shareholders equity</b>	<b>1,201,661</b>	<b>1,279,583</b>
Noncontrolling interest	487,245	449,996

Total shareholders' equity	1,688,906	1,729,579
Total liabilities and shareholders' equity	\$ 2,867,009	\$ 3,019,134

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

**Table of Contents****SOHU.COM INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)****(In thousands, except per share data)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>
<b>Revenues:</b>				
<b>Online advertising:</b>				
Brand advertising	\$ 148,823	\$ 151,517	\$ 393,334	\$ 436,187
Search and search-related	98,437	147,938	247,810	388,270
<b>Subtotal of online advertising revenues</b>	<b>247,260</b>	<b>299,455</b>	<b>641,144</b>	<b>824,457</b>
Online games	150,338	152,501	467,603	509,845
Others	32,817	70,134	87,134	136,686
<b>Total revenues</b>	<b>430,415</b>	<b>522,090</b>	<b>1,195,881</b>	<b>1,470,988</b>
<b>Cost of revenues:</b>				
<b>Online advertising:</b>				
Brand advertising	83,424	91,163	230,462	295,562
Search and search related	46,375	62,365	118,532	170,836
<b>Subtotal of cost of online advertising revenues</b>	<b>129,799</b>	<b>153,528</b>	<b>348,994</b>	<b>466,398</b>
Online games	33,949	34,635	90,798	128,049
Others	17,912	25,996	50,252	63,066
<b>Total cost of revenues</b>	<b>181,660</b>	<b>214,159</b>	<b>490,044</b>	<b>657,513</b>
<b>Gross profit</b>	<b>248,755</b>	<b>307,931</b>	<b>705,837</b>	<b>813,475</b>
<b>Operating expenses:</b>				
Product development	107,971	92,779	327,911	295,741
Sales and marketing	131,742	98,596	410,702	285,701
General and administrative	49,730	33,330	138,330	128,214
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	0	40,324	0	40,324
<b>Total operating expenses</b>	<b>289,443</b>	<b>265,029</b>	<b>876,943</b>	<b>749,980</b>
<b>Operating profit /(loss)</b>	<b>(40,688)</b>	<b>42,902</b>	<b>(171,106)</b>	<b>63,495</b>
<b>Other income</b>	<b>896</b>	<b>70,219</b>	<b>5,340</b>	<b>72,936</b>

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Net interest income	7,468	5,192	24,704	17,455
Exchange difference	(610)	4,322	27	3,452
Income /(loss) before income tax benefit /(expense)	(32,934)	122,635	(141,035)	157,338
Income tax benefit /(expense)	1,036	(29,461)	2,562	(57,280)
Net income/(loss)	(31,898)	93,174	(138,473)	100,058
Less: Net income /(loss) attributable to the noncontrolling interest shareholders	(4,760)	42,142	(19,138)	107,345
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	11,911	27,747	11,911
Net income /(loss) attributable to Sohu.com Inc.	\$ (27,138)	\$ 39,121	\$ (147,082)	\$ (19,198)
Net income /(loss)	(31,898)	93,174	(138,473)	100,058
Other comprehensive loss	(1,005)	(67,599)	(14,084)	(54,814)
Comprehensive income /(loss)	(32,903)	25,575	(152,557)	45,244

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Less: Comprehensive income /(loss) attributable to noncontrolling interest shareholders	(4,607)	23,215	(22,718)	89,065
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	11,911	27,747	11,911
Comprehensive loss attributable to Sohu.com Inc.	\$ (28,296)	\$ (9,551)	\$ (157,586)	\$ (55,732)
Basic net income /(loss) per share attributable to Sohu.com Inc.	\$ (0.71)	\$ 1.01	\$ (3.82)	\$ (0.50)
Shares used in computing basic net income /(loss) per share attributable to Sohu.com Inc.	38,485	38,633	38,457	38,582
Diluted net income /(loss) per share attributable to Sohu.com Inc.	\$ (0.74)	\$ 1.00	\$ (3.91)	\$ (0.52)
Shares used in computing diluted net income /(loss) per share attributable to Sohu.com Inc.	38,485	38,665	38,457	38,582

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

**Table of Contents****SOHU.COM INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)****(In thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income /(loss)	\$ (138,473)	\$ 100,058
<b>Adjustments to reconcile net income /(loss) to net cash provided by operating activities:</b>		
Amortization of intangible assets and purchased video content in prepaid expense	99,264	129,475
Depreciation	59,059	60,798
Goodwill impairment and impairment of intangible assets acquired as part of a business acquisition	0	40,324
Share-based compensation expense	29,513	28,465
Impairment of intangible assets	1,457	12,015
Investment income /(loss) from investments in debt securities and equity investments	(1,140)	3,791
Provision /(Reversal) for allowance for doubtful accounts	(2)	1,676
Change in fair value of put option	(2,304)	0
Gain from sale of the 7Road business and certain Changyou subsidiaries	0	(55,139)
Gain from sale of an equity investment	0	(12,962)
Change in fair value of short-term investments	(425)	(1,050)
Others	1,419	2,163
<b>Changes in assets and liabilities, net of acquisition:</b>		
Accounts receivable	(25,759)	(67,284)
Prepaid and other assets	32,825	2,941
Accounts payable	(4,194)	7,150
Accrued liabilities and other short-term liabilities	83,676	66,636
Receipts in advance and deferred revenue	(941)	11,202
Taxes payable	(17,463)	17,592
Deferred tax	(21,727)	9,612
<b>Net cash provided by operating activities</b>	<b>94,785</b>	<b>357,463</b>
<b>Cash flows from investing activities:</b>		
Purchase of intangible and other assets	(98,706)	(106,613)
Purchase of fixed assets	(73,440)	(84,127)
Purchase of short-term investments, net	(206,662)	(76,588)
Purchase of long-term investments	(24,609)	(37,803)
Funds to a third party	0	(20,033)
Deposited funds	0	(13,086)
Acquisition of MoboTap, net of cash acquired	(86,539)	0
Consideration received from sale of the 7Road business and certain Changyou subsidiaries, net of cash in 7Road upon its disposition	0	183,114

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Cash received /(paid) related to restricted time deposits, net	(13,554)	30,840
Proceeds received from sale of an equity investment	0	11,938
Proceeds received from debt securities at maturity	82,009	0
Other cash proceeds related to investing activities	3,404	3,866
Net cash used in investing activities	(418,097)	(108,492)

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Cash flows from financing activities:		
Loan proceeds	0	12,900
Issuance of common stock	516	2,124
Exercise of share-based awards in subsidiary	414	7
Repayments of loans from offshore banks	(410,194)	(25,500)
Repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders	(47,285)	(21,015)
Repurchase of Changyou American depository shares ( ADSs )	0	(14,517)
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	(24,591)	0
Proceeds of loans from offshore banks	370,000	0
Payment of contingent consideration	(2,813)	0
Other cash proceeds /(payments) related to financing activities	(4,935)	2,855
Net cash used in financing activities	(118,888)	(43,146)
Effect of exchange rate changes on cash and cash equivalents	(4,192)	(8,220)
Reclassification of cash and cash equivalents to held-for-sale assets	0	(66)
Net increase /(decrease) in cash and cash equivalents	(446,392)	197,539
Cash and cash equivalents at beginning of period	1,287,288	876,340
Cash and cash equivalents at end of period	\$ 840,896	\$ 1,073,879
Supplemental cash flow disclosures:		
Barter transactions	\$ 721	\$ 1,411
Supplemental schedule of non-cash investing activity:		
Consideration payable for acquisition and equity investment	0	10,722

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

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## SOHU.COM INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

Nine Months Ended September 30, 2014

(In thousands)

	Sohu.com Inc. Shareholders' Equity						
	Total	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest
Beginning balance	\$ 1,836,720	\$ 44	\$ 601,633	\$ (143,858)	\$ 116,304	\$ 752,582	\$ 510,015
Issuance of common stock	516	0	516	0	0	0	0
Repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders	(47,285)	0	26,276	0	0	(27,747)	(45,814)
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	(24,591)	0	0	0	0	0	(24,591)
Exercise of right to repurchase from China Web	1,584	0	1,584	0	0	0	0
Purchase of equity interests of a VIE from a third party shareholder	(809)	0	11	0	0	0	(820)
Share-based compensation expense	29,485	0	13,048	0	0	0	16,437
Settlement of share-based awards in subsidiary	798	0	11,336	0	0	0	(10,538)
Acquisition of MoboTap	53,424	0	0	0	0	0	53,424
Acquisition of noncontrolling interest in a subsidiary	(4,726)	0	(1,777)	0	0	0	(2,949)
Net income /(loss) attributable to Sohu.com Inc. and noncontrolling interest shareholders	(138,473)	0	0	0	0	(119,335)	(19,138)
Accumulated other comprehensive income	(14,084)	0	0	0	(10,504)	0	(3,580)

/(loss)

Ending balance	\$ 1,692,559	\$ 44	\$ 652,627	\$ (143,858)	\$ 105,800	\$ 605,500	\$ 472,446
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The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**SOHU.COM INC.****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)****Nine Months Ended September 30, 2015**

(In thousands)

	<b>Sohu.com Inc. Shareholders' Equity</b>						
	<b>Additional</b>		<b>Accumulated</b>		<b>Other</b>		
	<b>Total</b>	<b>Common</b>	<b>Paid-in</b>	<b>Treasury</b>	<b>Comprehensive</b>	<b>Retained</b>	<b>Noncontrolling</b>
		<b>Stock</b>	<b>Capital</b>	<b>Stock</b>	<b>Income</b>	<b>Earnings</b>	<b>Interest</b>
Beginning balance	\$ 1,688,906	\$ 44	\$ 650,148	\$ (143,858)	\$ 109,402	\$ 585,925	\$ 487,245
Issuance of common stock	2,126	1	2,125	0	0	0	0
Repurchase of Changyou ADSs	(14,517)	0	(9,982)	0	0	0	(4,535)
Share-based compensation expense	28,515	0	16,684	0	0	0	11,831
Settlement of share-based awards in subsidiary	357	0	33,649	0	0	0	(33,292)
Repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders, net of transaction expense	(21,329)	0	90,719	0	0	(11,911)	(100,137)
Purchase of noncontrolling interest in RaidCall	0	0	458	0	0	0	(458)
Noncontrolling interest recognized in domestic companies	277	0	0	0	0	0	277
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	100,058	0	0	0	0	(7,287)	107,345
Accumulated other comprehensive income	(54,814)	0	0	0	(36,534)	0	(18,280)
Ending balance	\$ 1,729,579	\$ 45	\$ 783,801	\$ (143,858)	\$ 72,868	\$ 566,727	\$ 449,996

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



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**SOHU.COM INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. The Company and Basis of Presentation**

*Nature of Operations*

Sohu.com Inc. (NASDAQ: SOHU), a Delaware corporation organized in 1996, is a leading Chinese online media, search and game service group providing comprehensive online products and services on PCs and mobile devices in the People's Republic of China (the PRC or China). Sohu.com Inc.'s businesses are conducted by Sohu.com Inc. and its subsidiaries and VIEs (collectively referred to as the Sohu Group or the Group). The Sohu Group consists of Sohu, which when referred to in this report, unless the context requires otherwise, excludes the businesses and the corresponding subsidiaries and VIEs of Sogou Inc. (Sogou) and Changyou.com Limited (Changyou), Sogou and Changyou. Sogou and Changyou are indirect controlled subsidiaries of Sohu.com Inc. Sohu is a leading Chinese language online media content and services provider. Sogou is a leading online search, client software and mobile Internet product provider in China. Changyou is a leading online game developer and operator in China as measured by the popularity of its PC game TLBB and its mobile game TLBB 3D, and engages primarily in the development, operation and licensing of online games for PCs and mobile devices. Most of the Group's operations are conducted through the Group's indirect wholly-owned and majority-owned China-based subsidiaries and VIEs.

Through the operation of Sohu, Sogou and Changyou, the Sohu Group generates online advertising revenues, including brand advertising revenues and search and search-related revenues (which were previously known as search and Web directory revenues); online games revenues; and others revenues. Online advertising and online games are the Group's core businesses. For the three months ended September 30, 2015, total revenues generated by Sohu, Sogou and Changyou were approximately \$522.1 million.

*Sohu's Business*

*Brand Advertising Business*

Sohu's main business is the brand advertising business, which offers to users, over Sohu's matrices of Chinese language online media, various content, products and services across multiple Internet-enabled devices such as PCs, mobile phones and tablets. The majority of Sohu's products and services are provided through Sohu Media Portal, Sohu Video and Focus.

**Sohu Media Portal.** Sohu Media Portal is a leading online news and information provider in China. It provides users comprehensive content through www.sohu.com for PCs, the mobile portal m.sohu.com and the mobile phone application Sohu News APP.

**Sohu Video.** Sohu Video (tv.sohu.com) is a leading online video content and service provider in China through tv.sohu.com for PCs and the mobile phone application Sohu Video APP; and

**Focus.** Focus (www.focus.cn) is a leading online real estate information provider in China. Revenues generated by the brand advertising business are classified as brand advertising revenues in the Sohu Group's consolidated statements of comprehensive income.

*Others Business*

Sohu also engages in the others business, which includes the filming business, mobile-related services, sub-licensing of purchased video content to third parties, and paid subscription services. Revenues generated by Sohu from the others business are classified as others revenues in the Sohu Group's consolidated statements of comprehensive income.

**Sogou's Business**

*Search and Search-related Business*

The search and search-related business primarily offers advertisers pay-for-click services, as well as online marketing services on Web directories operated by Sogou. Pay-for-click services enable advertisers' promotional links to be displayed on the Sogou search result pages and Sogou Website Alliance members' Websites where the links are relevant to the subject and content of such Web pages. Both pay-for-click services and online marketing services on Web directories operated by Sogou expand distribution of our advertisers' Website links and advertisements by leveraging traffic on Sogou Website Alliance members' Websites. The search and search-related business benefits significantly from Sogou's collaboration with Tencent Holdings Limited (together with its subsidiaries, Tencent), which provides Sogou access to traffic generated from users of products and services provided by Tencent.

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Revenues generated by the search and search-related business are classified as search and search-related revenues in the Sohu Group's consolidated statements of comprehensive income.

### *Others Business*

Sogou also engages in the others business by primarily offering Internet value-added services (IVAS) with respect to the operation of Web games and mobile games developed by third parties as well as other services and products provided to users. Revenues generated by Sogou from the others business are classified as others revenues in the Sohu Group's consolidated statements of comprehensive income.

### *Changyou's Business*

Changyou has three businesses, consisting of the online game business, the platform channel business and the others business.

#### *Online Game Business*

Changyou's online game business offers to game players PC games which are online games designed primarily for playing on PCs; mobile games, which are played on mobile devices with an Internet connection; and Web games, which are online games played over the Internet using a Web browser. Changyou's PC games and mobile games are mainly MMOGs, which are interactive online games that may be played simultaneously by hundreds of thousands of game players. All of Changyou's games are operated under the item-based revenue model, where game players play the games for free but can purchase virtual items to enhance the game-playing experience. Revenues derived from the operation of online games are classified as online game revenues in the Sohu Group's consolidated statements of comprehensive income.

Changyou's flagship PC game is its MMOG Tian Long Ba Bu (TLBB). For the three and nine months ended September 30, 2015, revenues from the PC game TLBB were \$77.8 million and \$244.9 million, respectively, accounting for approximately 51% and 48%, respectively, of Changyou's online game revenues, approximately 41% of Changyou's total revenues for both periods and approximately 15% and 17%, respectively, of the Sohu Group's total revenues.

#### *Platform Channel Business*

Changyou also owns and operates a number of Web properties and software applications for PCs and mobile devices (collectively referred to as platform channels), including the 17173.com Website, one of the leading information portals for game players in China; RaidCall, which provides online music and entertainment services, primarily in Taiwan; and the Dolphin Browser, a gateway to a host of user activities on mobile devices, with the majority of its users based in Europe, Russia and Japan. Changyou's platform channels serve various needs of its users and help Changyou reach more user communities and conduct cross-promotions of its games and services. Revenues generated by 17173.com are classified as brand advertising revenues, and revenues generated by RaidCall and the Dolphin Browser are classified as others revenues, in the Group's consolidated statements of comprehensive income.

### *Others Business*

Changyou also operates a cinema advertising business, which consists of Changyou offering slots for advertisements to be shown in cinemas before the screening of movies. Revenues generated by Changyou's cinema advertising business are classified as others revenues in the Sohu Group's consolidated statements of comprehensive income.

***Basis of Consolidation and Recognition of Noncontrolling Interest***

The consolidated financial statements include the accounts of Sohu.com Inc. and its wholly-owned and majority-owned subsidiaries and consolidated VIEs. All intercompany transactions are eliminated.

***VIE Consolidation***

The Sohu Group's VIEs are wholly or partially owned by certain employees of the Group as nominee shareholders. For consolidated VIEs, management made evaluations of the relationships between the Sohu Group and the VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, the Group controls the shareholders voting interests in these VIEs. As a result of such evaluation, management concluded that the Sohu Group is the primary beneficiary of its consolidated VIEs. The Sohu Group has two VIEs that are not consolidated, since the Group is not the primary beneficiary.

**Table of Contents***Noncontrolling Interest Recognition*

Noncontrolling interests are recognized to reflect the portion of the equity of majority-owned subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholders. The primary majority-owned subsidiaries and VIEs of the Sohu Group which are consolidated in the Group's consolidated financial statements with noncontrolling interest recognized are Sogou and Changyou.

*Basis of Presentation*

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The accompanying unaudited condensed consolidated interim financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the nine months ended September 30, 2015 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

**2. Segment Information**

The Sohu Group's segments are business units that offer different services and are reviewed separately by the chief operating decision maker (the CODM ), or the decision making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is Sohu.com Inc.'s Chief Executive Officer.

Commencing in the second quarter of 2015, the CODM did not consider the others segment to be significant enough to be separately reviewed. Therefore, in order to better reflect management's perspective, the Group combined the brand advertising segment and the others segment, and now identifies them together as the Sohu segment. There are now three segments in the Group, consisting of the Sohu segment, the Sogou segment, and the Changyou segment. The Group has restated the presentation of its reportable segments for prior periods to conform to the current presentation.

The following tables present summary information by segment (in thousands):

	<b>Three Months Ended September 30, 2014</b>				
	<b>Sohu</b>	<b>Sogou</b>	<b>Changyou</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues (1)	\$ 147,626	\$ 106,158	\$ 180,819	\$ (4,188)	\$ 430,415
Segment cost of revenues	(85,117)	(46,463)	(50,278)	667	(181,191)
Segment gross profit	62,509	59,695	130,541	(3,521)	249,224
SBC (2) in cost of revenues	(218)	(193)	(58)	0	(469)
Gross profit	62,291	59,502	130,483	(3,521)	248,755

Operating expenses:

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Product development	(23,767)	(26,113)	(52,827)	788	(101,919)
Sales and marketing	(57,470)	(24,570)	(52,930)	4,165	(130,805)
General and administrative	(12,159)	(3,208)	(26,832)	(189)	(42,388)
SBC (2) in operating expenses	(922)	(13,094)	(456)	141	(14,331)
<b>Total operating expenses</b>	<b>(94,318)</b>	<b>(66,985)</b>	<b>(133,045)</b>	<b>4,905</b>	<b>(289,443)</b>
Operating loss	(32,027)	(7,483)	(2,562)	1,384	(40,688)
Other income /(expense)	1,860	(4)	283	(1,243)	896
Net interest income	1,966	860	4,642	0	7,468
Exchange difference	(15)	4	(599)	0	(610)
Income /(loss) before income tax benefit /(expense)	(28,216)	(6,623)	1,764	141	(32,934)
Income tax benefit /(expense)	1,327	0	(291)	0	1,036
Net income /(loss)	\$ (26,889)	\$ (6,623)	\$ 1,473	\$ 141	\$ (31,898)

Note (1): The elimination for segment revenues mainly consists of marketing services (banner advertisements and similar services) provided by the Sohu segment to the Changyou segment.

Note (2): SBC stands for share-based compensation expense.

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	<b>Three Months Ended September 30, 2015</b>				
	<b>Sohu</b>	<b>Sogou</b>	<b>Changyou</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues (1)	\$ 172,902	\$ 162,300	\$ 188,875	\$ (1,987)	\$ 522,090
Segment cost of revenues	(99,742)	(66,035)	(48,821)	539	(214,059)
Segment gross profit	73,160	96,265	140,054	(1,448)	308,031
SBC (2) in cost of revenues	(184)	(12)	96	0	(100)
<b>Gross profit</b>	<b>72,976</b>	<b>96,253</b>	<b>140,150</b>	<b>(1,448)</b>	<b>307,931</b>
Operating expenses:					
Product development	(23,708)	(31,573)	(40,178)	1,348	(94,111)
Sales and marketing	(52,315)	(25,775)	(21,639)	1,599	(98,130)
General and administrative	(12,966)	(3,956)	(17,741)	(203)	(34,866)
Goodwill impairment and impairment of intangible assets acquired as part of a business acquisition	0	0	(40,324)	0	(40,324)
SBC (2) in operating expenses	(2,228)	1,262	3,368	0	2,402
<b>Total operating expenses</b>	<b>(91,217)</b>	<b>(60,042)</b>	<b>(116,514)</b>	<b>2,744</b>	<b>(265,029)</b>
<b>Operating profit /(loss)</b>	<b>(18,241)</b>	<b>36,211</b>	<b>23,636</b>	<b>1,296</b>	<b>42,902</b>
Other income	91,736	32	58,554	(80,103)	70,219
Net interest income	587	1,326	3,279	0	5,192
Exchange difference	1,360	627	2,335	0	4,322
<b>Income before income tax expense</b>	<b>75,442</b>	<b>38,196</b>	<b>87,804</b>	<b>(78,807)</b>	<b>122,635</b>
Income tax expense	(1,091)	(2,586)	(25,784)	0	(29,461)
<b>Net income</b>	<b>\$ 74,351</b>	<b>\$ 35,610</b>	<b>\$ 62,020</b>	<b>\$ (78,807)</b>	<b>\$ 93,174</b>

Note (1): The elimination for segment revenues and other income mainly consists of marketing services provided among the Sohu, Sogou and Changyou segments, and Sogou's repurchase of Sogou shares from Sohu.com (Search) Limited (Sohu Search).

Note (2): SBC stands for share-based compensation expense.

	<b>Nine Months Ended September 30, 2014</b>				
	<b>Sohu</b>	<b>Sogou</b>	<b>Changyou</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues (1)	\$ 400,695	\$ 267,081	\$ 539,353	\$ (11,248)	\$ 1,195,881
Segment cost of revenues	(238,617)	(118,152)	(132,941)	1,120	(488,590)
Segment gross profit	162,078	148,929	406,412	(10,128)	707,291
SBC (2) in cost of revenues	(562)	(706)	(186)	0	(1,454)
<b>Gross profit</b>	<b>161,516</b>	<b>148,223</b>	<b>406,226</b>	<b>(10,128)</b>	<b>705,837</b>

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Operating expenses:					
Product development	(68,099)	(75,582)	(171,362)	3,131	(311,912)
Sales and marketing	(165,408)	(49,919)	(202,890)	11,266	(406,951)
General and administrative	(33,549)	(8,395)	(70,452)	(533)	(112,929)
SBC (2) in operating expenses	(8,437)	(36,523)	(1,093)	902	(45,151)
Total operating expenses	(275,493)	(170,419)	(445,797)	14,766	(876,943)
Operating loss	(113,977)	(22,196)	(39,571)	4,638	(171,106)
Other income	5,287	2,455	1,334	(3,736)	5,340

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Net interest income	6,515	1,714	16,475	0	24,704
Exchange difference	(103)	(159)	289	0	27
Loss before income tax benefit/ (expense)	(102,278)	(18,186)	(21,473)	902	(141,035)
Income tax benefit/(expense)	(2,022)	0	4,584	0	2,562
Net loss	\$ (104,300)	\$ (18,186)	\$ (16,889)	\$ 902	\$ (138,473)

Note (1): The elimination for segment revenues mainly consists of marketing services (banner advertisements and similar services) provided by the Sohu segment to the Changyou segment.

Note (2): SBC stands for share-based compensation expense.

	<b>Nine Months Ended September 30, 2015</b>				
	<b>Sohu</b>	<b>Sogou</b>	<b>Changyou</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues (1)	\$ 450,776	\$ 426,099	\$ 599,726	\$ (5,613)	\$ 1,470,988
Segment cost of revenues	(306,221)	(177,401)	(174,024)	1,091	(656,555)
Segment gross profit	144,555	248,698	425,702	(4,522)	814,433
SBC (2) in cost of revenues	(847)	(119)	8	0	(958)
Gross profit	143,708	248,579	425,710	(4,522)	813,475
Operating expenses:					
Product development	(72,362)	(93,285)	(124,156)	3,740	(286,063)
Sales and marketing	(148,241)	(64,718)	(76,365)	5,196	(284,128)
General and administrative	(44,551)	(10,873)	(56,076)	(459)	(111,959)
Goodwill impairment and impairment of intangible assets acquired as part of a business acquisition	0	0	(40,324)	0	(40,324)
SBC (2) in operating expenses	(14,371)	(5,681)	(7,539)	85	(27,506)
Total operating expenses	(279,525)	(174,557)	(304,460)	8,562	(749,980)
Operating profit /(loss)	(135,817)	74,022	121,250	4,040	63,495
Other income /(expense)	91,679	122	63,896	(82,761)	72,936
Net interest income	2,432	4,011	11,012	0	17,455
Exchange difference	1,124	337	1,991	0	3,452
Income /(loss) before income tax expense	(40,582)	78,492	198,149	(78,721)	157,338
Income tax expense	(5,642)	(5,900)	(45,738)	0	(57,280)
Net income /(loss)	\$ (46,224)	\$ 72,592	\$ 152,411	\$ (78,721)	\$ 100,058

Note (1): The elimination for segment revenues and other income mainly consists of marketing services provided among the Sohu, Sogou and Changyou segments, and Sogou's repurchase of Sogou shares from Sohu Search.  
 Note (2): SBC stands for share-based compensation expense.

	<b>As of December 31, 2014</b>				
	<b>Sohu</b>	<b>Sogou</b>	<b>Changyou</b>	<b>Eliminations</b>	<b>Consolidated</b>
Cash and cash equivalents	\$ 431,272	\$ 224,273	\$ 220,795	\$ 0	\$ 876,340
Accounts receivable, net	137,183	15,341	77,969	(92)	230,401
Fixed assets, net	252,255	44,686	243,837	0	540,778
Total assets (1)	\$ 1,159,403	\$ 305,975	\$ 1,547,965	\$ (146,334)	\$ 2,867,009

Note (1): The elimination for segment assets mainly consists of elimination of long-term investments in subsidiaries and consolidated VIEs.

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	<b>As of September 30, 2015</b>				
	<b>Sohu</b>	<b>Sogou</b>	<b>Changyou</b>	<b>Eliminations</b>	<b>Consolidated</b>
Cash and cash equivalents	\$ 424,276	\$ 219,094	\$ 430,509	\$ 0	\$ 1,073,879
Accounts receivable, net	192,264	28,386	64,735	(89)	285,296
Fixed assets, net	232,758	69,867	221,242	0	523,867
Total assets (1)	\$ 1,376,726	\$ 350,691	\$ 1,735,738	\$ (444,021)	\$ 3,019,134

Note (1): The elimination for segment assets mainly consists of elimination of intracompany loans between the Sohu segment and the Changyou segment, and elimination of long-term investments in subsidiaries and consolidated VIEs.

**3. Share-Based Compensation Expense**

Sohu (excluding Fox Video Limited), Sogou, Changyou, and Fox Video Limited ( Sohu Video ) have incentive plans, and prior to June 28, 2013 7Road.com Limited ( 7Road ) had an incentive plan, for the granting of share-based awards, including common stock or ordinary shares, share options, restricted shares and restricted share units, to members of the boards of directors, management and other key employees.

***Sohu (excluding Sohu Video), Sogou, and Changyou Share-based Awards***

For Sohu (excluding Sohu Video) share options that Sohu granted before 2006 and Sohu restricted share units, Sogou share-based awards, and Changyou share-based awards under the Changyou 2008 Share Incentive Plan, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates.

For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses, share-based compensation expense is recognized in the consolidated statements of comprehensive income based on the then-current fair value at each reporting date.

For 1,068,000 Sohu stock options contractually granted on February 7, 2015, 2,400,000 Changyou share options converted from restricted share units on February 16, 2015, and 1,998,000 Changyou share options contractually granted on June 1, 2015, awards are expected to vest and become exercisable in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets. For purposes of ASC 718-10-25, as of September 30, 2015 no grant date had occurred, because no grant date can be established until a mutual understanding is reached between the companies and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimate of the awards fair value will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair value at the grant date. In determining the fair value of stock options and share options granted by Sohu and Changyou, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied.

***Sohu Video Share-based Awards***

On January 4, 2012, Sohu Video, the holding entity of Sohu s video division, adopted a 2011 Share Incentive Plan (the Video 2011 Share Incentive Plan ) which provides for the issuance of up to 25,000,000 ordinary shares of Sohu Video (representing approximately 10% of the outstanding Sohu Video shares on a fully-diluted basis) to management and

key employees of the video division and to Sohu management. As of September 30, 2015, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made, of which options for the purchase of 4,972,800 ordinary shares were vested.

For purposes of *ASC 718-10-25*, as of September 30, 2015, no grant date had occurred, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients. In accordance with *ASC 718-10-55*, management determined that the service inception date with respect to vested option awards for the purchase of 4,972,800 shares had preceded the grant date. Therefore, the Group began to recognize compensation expense for Sohu Video share-based awards in the second quarter of 2014 and re-measured, and will re-measure, the compensation expense on each subsequent reporting date based on the then-current fair values of the awards until the grant date is established.

**Table of Contents****7Road Share-based Awards**

On July 10, 2012, 7Road adopted the 7Road 2012 Share Incentive Plan. On June 28, 2013, 7Road's Board of Directors approved the cancellation of this incentive plan. 7Road concurrently offered to a total of 42 7Road employees holding an aggregate of 2,223,750 restricted share units which had been granted under this incentive plan the right to exchange their restricted share units for, at each employee's election, in each case subject to the employee's continued employment by 7Road, either (i) Scheme I: the right to a cash payment of up to an aggregate of \$2.90 per restricted share unit exchanged, vesting and payable at the rate of 40%, 30% and 30%, respectively, on the first, second and third anniversaries of July 18, 2012, which is the date when the surrendered restricted share units were granted under the 7Road 2012 Share Incentive Plan, or (ii) Scheme II: the right to receive an annual cash bonus, over a seven-year period commencing July 1, 2013, based on the adjusted annual cumulative net income of 7Road. As of June 28, 2013, all restricted share units held by these 42 7Road employees had been included in this exchange program. In the third quarter of 2013, 7Road granted to an additional 48 7Road employees the right to receive an annual cash bonus under Scheme II with the same terms as described above.

On August 17, 2015, Changyou completed the sale of the 7Road business. See Note 12- Business Transactions. As of August 17, 2015, Changyou had recognized an aggregate of \$4.2 million of compensation expense under the 7Road 2012 Share Incentive Plan for Scheme I and \$0.7 million of compensation expense for Scheme II. In the future, there will be no compensation expense recognized under the 7Road 2012 Share Incentive Plan.

**Share-based Compensation Expense Recognition**

Share-based compensation expense was recognized in costs and expenses for the three and nine months ended September 30, 2014 and 2015, respectively, as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015
<b>Share-based compensation expense</b>				
Cost of revenues	\$ 469	\$ 99	\$ 1,454	\$ 957
Product development expenses (1)	6,052	(1,331)	15,999	9,680
Sales and marketing expenses	937	466	3,751	1,573
General and administrative expenses (1)	7,342	(1,536)	25,402	16,255
	\$ 14,800	\$ (2,302)	\$ 46,606	\$ 28,465

Share-based compensation expense was recognized for share awards of Sohu (excluding Sohu Video), Sogou, Changyou and Sohu Video as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015
<b>Share-based compensation expense</b>				
For Sohu (excluding Sohu Video) share-based awards	\$ 1,337	\$ 2,294	\$ 5,242	\$ 15,031

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For Sogou share-based awards (1) (2)	13,098	(1,230)	36,033	5,706
For Changyou share-based awards (1)	514	(3,465)	1,253	7,529
For Sohu Video share-based awards	(149)	99	4,078	199
	\$ 14,800	\$ (2,302)	\$ 46,606	\$ 28,465

Note (1): The negative amount resulted from re-measured compensation expense based on the then-current fair value of the awards on September 30, 2015 as well as a true-up of share-based compensation expense for forfeited share options and restricted share units for Sogou and Changyou share-based awards.

Note (2): Sogou share-based awards also include compensation expense for Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses, and compensation expense equal to the excess of the repurchase price paid to employees over the fair value at the repurchase date of Sogou Class A Ordinary Shares that Sogou repurchased in the second quarter of 2014.

There was no capitalized share-based compensation expense for the three and nine months ended September 30, 2014 and 2015.

**Table of Contents****4. Fair Value Measurements*****Fair Value of Financial Instruments***

The Sohu Group's financial instruments include cash equivalents, restricted time deposits, short-term investments, accounts receivable, prepaid and other current assets, held-for-sale assets, available-for-sale equity securities under long-term investments, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, held-for-sale liabilities, long-term accounts payable and long-term bank loans.

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1 observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 include other inputs that are directly or indirectly observable in the market place.

Level 3 unobservable inputs which are supported by little or no market activity.

***Financial Instruments Measured at Fair Value***

The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of December 31, 2014 (in thousands):

Items	Fair value measurements at reporting date using			
	As of December 31, 2014	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 583,160	\$ 0	\$ 583,160	\$ 0
Restricted time deposits	426,748	0	426,748	0
Short-term investments	191,577	0	191,577	0