

SOHU COM INC
Form 10-Q
August 07, 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 JUNE 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:

Class	Outstanding at June 30, 2015
Common stock, \$.001 par value	38,624,916

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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	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 876,340	\$ 1,001,979
Restricted time deposits	282,186	250,866
Short-term investments	191,577	197,086
Accounts receivable, net	230,401	266,478
Prepaid and other current assets	116,704	129,700
Held-for-sale assets	0	151,545
Total current assets	1,697,208	1,997,654
Fixed assets, net	540,778	540,977
Goodwill	303,426	193,830
Long-term investments, net	24,067	49,057
Intangible assets, net	110,691	88,784
Restricted time deposits	144,562	144,681
Prepaid non-current assets	8,933	10,255
Other assets	37,344	35,220
Total assets	\$ 2,867,009	\$ 3,060,458
LIABILITIES		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities (VIEs) without recourse to the Company of \$3,495 and \$22,636, respectively, as of December 31, 2014 and June 30, 2015)	\$ 127,758	\$ 132,742
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of \$78,051 and \$68,083, respectively, as of December 31, 2014 and June 30, 2015)	239,231	294,517
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 \$54,813, respectively, as of December 31, 2014 and June 30, 2015)	127,740	134,063
	108,741	86,512

Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$6,300 and \$10,341, respectively, as of December 31, 2014 and June 30, 2015)		
Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of \$10,767 and \$6,235, respectively, as of December 31, 2014 and June 30, 2015)	33,380	31,725
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$1,669 and \$1,615, respectively, as of December 31, 2014 and June 30, 2015)	22,356	24,229

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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 June 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 \$141,569, respectively, as of December 31, 2014 and June 30, 2015)	105,644	208,023
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of \$3,935 and 2,045, respectively, as of December 31, 2014 and June 30, 2015)	3,935	2,045
Held-for-sale liabilities (including held-for-sale liabilities of consolidated VIEs without recourse to the Company of nil and \$7,832, respectively, as of December 31, 2014 and June 30, 2015)	0	2,779
Total current liabilities	794,285	942,135
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of \$21,534 and \$22,079 as of December 31, 2014 and June 30, 2015)	5,143	2,601
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 June 30, 2015)	344,500	344,500
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 June 30, 2015)	24,829	24,830
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$1,799 and \$607, respectively, as of December 31, 2014 and June 30, 2015)	7,417	6,115
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 June 30, 2015)	1,929	0
Total long-term liabilities	383,818	378,046
Total liabilities	1,178,103	1,320,181
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Sohu.com Inc. shareholders' equity:		
Common stock: \$0.001 par value per share (75,400 shares authorized; 38,507 shares and 38,625 shares, respectively, issued and outstanding as of December 31, 2014 and June 30, 2015)	44	45
Additional paid-in capital	650,148	668,415
Treasury stock (5,889 shares as of both December 31, 2014 and June 30, 2015)	(143,858)	(143,858)
Accumulated other comprehensive income	109,402	121,540
Retained earnings	585,925	527,606
Total Sohu.com Inc. shareholders' equity	1,201,661	1,173,748
Noncontrolling interest	487,245	566,529
Total shareholders' equity	1,688,906	1,740,277

Total liabilities and shareholders' equity	\$ 2,867,009	\$ 3,060,458
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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 STATEMENTS OF COMPREHENSIVE INCOME (unaudited)****(In thousands, except per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Revenues:				
Online advertising:				
Brand advertising	\$ 133,408	\$ 150,849	\$ 244,511	\$ 284,670
Search and Web directory	85,064	135,206	149,373	240,332
Subtotal of online advertising revenues	218,472	286,055	393,884	525,002
Online games	153,877	172,350	317,265	357,344
Others	27,802	35,161	54,317	66,552
Total revenues	400,151	493,566	765,466	948,898
Cost of revenues:				
Online advertising:				
Brand advertising	82,898	99,847	147,038	204,399
Search and Web directory	40,420	58,552	72,157	108,471
Subtotal of cost of online advertising revenues	123,318	158,399	219,195	312,870
Online games	30,263	43,929	56,849	93,414
Others	16,305	18,872	32,340	37,070
Total cost of revenues	169,886	221,200	308,384	443,354
Gross profit	230,265	272,366	457,082	505,544
Operating expenses:				
Product development	102,218	100,771	219,940	202,962
Sales and marketing	136,606	103,977	278,960	187,105
General and administrative	53,246	49,720	88,600	94,884
Total operating expenses	292,070	254,468	587,500	484,951
Operating profit /(loss)	(61,805)	17,898	(130,418)	20,593
Other income /(loss)	694	(437)	4,444	2,717

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Net interest income	8,779	6,228	17,236	12,263
Exchange difference	59	(687)	637	(870)
Income /(loss) before income tax expense	(52,273)	23,002	(108,101)	34,703
Income tax benefit /(expense)	1,740	(11,519)	1,526	(27,819)
Net income /(loss)	(50,533)	11,483	(106,575)	6,884
Less: Net income /(loss) attributable to the noncontrolling interest shareholders	(9,443)	38,682	(14,378)	65,203
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	0	27,747	0
Net loss attributable to Sohu.com Inc.	\$ (41,090)	\$ (27,199)	\$ (119,944)	\$ (58,319)
Net income /(loss)	(50,533)	11,483	(106,575)	6,884
Other comprehensive income /(loss)	(255)	11,616	(13,079)	12,785
Comprehensive income /(loss)	(50,788)	23,099	(119,654)	19,669
Less: Comprehensive income /(loss) attributable to noncontrolling interest shareholders	(9,485)	40,613	(18,111)	65,850

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Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	0	27,747	0
Comprehensive loss attributable to Sohu.com Inc.	(41,303)	(17,514)	(129,290)	(46,181)
Basic net loss per share attributable to Sohu.com Inc.	\$ (1.07)	\$ (0.70)	\$ (3.12)	\$ (1.51)
Shares used in computing basic net loss per share attributable to Sohu.com Inc.	38,475	38,587	38,443	38,556
Diluted net loss per share attributable to Sohu.com Inc.	\$ (1.16)	\$ (0.71)	\$ (3.18)	\$ (1.53)
Shares used in computing diluted net loss per share attributable to Sohu.com Inc.	38,475	38,587	38,443	38,556

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)**

	Six Months Ended June 30,	
	2014	2015
Cash flows from operating activities:		
Net income /(loss)	\$ (106,575)	\$ 6,884
Adjustments to reconcile net income /(loss) to net cash provided by operating activities:		
Amortization of intangible assets and purchased video content in prepaid expense	64,562	96,956
Depreciation	38,751	41,254
Share-based compensation expense	14,771	30,767
Impairment of intangible assets	412	7,082
Provision for allowance for doubtful accounts	471	1,128
Investment income from investments in debt securities	(1,370)	0
Change in fair value of put option	(2,304)	0
Change in fair value of short-term investments	0	(802)
Others	1,299	3,553
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(12,082)	(37,226)
Prepaid and other assets	(2,978)	(563)
Accounts payable	(9,168)	(953)
Accrued liabilities and other short-term liabilities	20,847	37,277
Receipts in advance and deferred revenue	(10,582)	6,448
Taxes payable	(9,337)	(647)
Deferred tax	(17,058)	9,183
Net cash provided by /(used in) operating activities	(30,341)	200,341
Cash flows from investing activities:		
Purchase of intangible and other assets	(54,363)	(73,406)
Purchase of fixed assets	(56,070)	(55,295)
Purchase of long-term investments	0	(16,657)
Deposited funds	0	(13,086)
Proceeds from /(purchase of) short-term investments, net	2,827	(5,848)
Consideration received from disposition of 7Road.com Limited (7Road)	0	50,610
Cash received related to restricted time deposits, net	48,764	31,422
Proceeds received from debt securities at maturity	82,009	0
Other cash proceeds related to investing activities	1,687	3,148
Net cash provided by /(used in) investing activities	24,854	(79,112)
Cash flows from financing activities:		
Loan proceeds	0	12,900
Issuance of common stock	425	2,019

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Exercise of share-based awards in subsidiary	404	7
Repurchase of Changyou American depositary shares (ADSs)	0	(1,329)
Repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders	(47,285)	0
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	(24,532)	0

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Repayments of loans from offshore banks	(153,193)	0
Payment of contingent consideration	(2,813)	0
Other cash proceeds related to financing activities	0	570
Net cash provided by /(used in) financing activities	(226,994)	14,167
Effect of exchange rate changes on cash and cash equivalents	(4,445)	5,114
Reclassification of cash and cash equivalents to held-for-sale assets	0	(14,871)
Net increase /(decrease) in cash and cash equivalents	(236,926)	125,639
Cash and cash equivalents at beginning of period	1,287,288	876,340
Cash and cash equivalents at end of period	\$ 1,050,362	\$ 1,001,979
Supplemental cash flow disclosures:		
Barter transactions	721	1,334
Supplemental schedule of non-cash investing activity:		
Consideration payable for acquisitions	0	5,000

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)

Six Months Ended June 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	425	0	425	0	0	0	0
Share-based compensation expense	14,753	0	11,029	0	0	0	3,724
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	(24,532)	0	0	0	0	0	(24,532)
Exercise of right to repurchase Sogou Series A Preferred Shares 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)
Settlement of share-based awards in subsidiary	790	0	11,227	0	0	0	(10,437)
Net loss attributable to Sohu.com Inc. and noncontrolling interest shareholders	(106,575)	0	0	0	0	(92,197)	(14,378)
Accumulated other comprehensive loss	(13,079)	0	0	0	(9,346)	0	(3,733)
Ending balance	\$ 1,661,992	\$ 44	\$ 652,185	\$(143,858)	\$ 106,958	\$ 632,638	\$ 414,025

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)

Six Months Ended June 30, 2015

(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	\$ 1,688,906	\$ 44	\$ 650,148	\$ (143,858)	\$ 109,402	\$ 585,925	\$ 487,245
Issuance of common stock	2,022	1	2,021	0	0	0	0
Repurchase of Changyou ADSs	(1,329)	0	(905)	0	0	0	(424)
Share-based compensation expense	30,817	0	15,126	0	0	0	15,691
Settlement of share-based awards in subsidiary	0	0	1,567	0	0	0	(1,567)
Purchase of noncontrolling interest in RaidCall	0	0	458	0	0	0	(458)
Disposal of partial equity interest in a VIE	192	0	0	0	0	0	192
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	6,884	0	0	0	0	(58,319)	65,203
Accumulated other comprehensive income	12,785	0	0	0	12,138	0	647
Ending balance	\$ 1,740,277	\$ 45	\$ 668,415	\$ (143,858)	\$ 121,540	\$ 527,606	\$ 566,529

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 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 June 30, 2015, total revenues generated by Sohu, Sogou and Changyou were approximately \$493.6 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 provides users comprehensive online content, including news, entertainment, sports, automobile, business and finance, through www.sohu.com for PCs, the mobile portal m.sohu.com and the mobile phone application Sohu News APP.

Sohu Video. Sohu Video is a leading online video 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 mobile-related services and mobile products offered in cooperation with China mobile network operators to mobile phone users and to China mobile network operators, and sub-licensing of purchased video content to third parties. 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 Web Directory Business

The search and Web directory 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 Web directory 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 Web directory business are classified as search and Web directory 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 six months ended June 30, 2015, revenues from TLBB were \$80.6 million and \$167.1 million, respectively, accounting for approximately 47% of Changyou's online game revenues for both periods, approximately 40% and 41%, respectively, of Changyou's total revenues and approximately 16% and 18%, 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 three VIEs that are not consolidated, since the Group is not the primary beneficiary.

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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 six months ended June 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. Some items, such as share-based compensation expense, operating expenses, other income and expense, and income tax benefit and expense, are not reviewed by the CODM. These items are disclosed in the segment information for reconciliation purposes only.

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):

	Three Months Ended June 30, 2014				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 135,085	\$ 90,951	\$ 177,781	\$ (3,666)	\$ 400,151
Segment cost of revenues	(85,397)	(39,988)	(43,519)	217	(168,687)
Segment gross profit	49,688	50,963	134,262	(3,449)	231,464
SBC (2) in cost of revenues	(700)	(482)	(17)	0	(1,199)

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Gross profit	48,988	50,481	134,245	(3,449)	230,265
Operating expenses:					
Product development	(21,825)	(25,286)	(48,977)	1,164	(94,924)
Sales and marketing	(54,494)	(14,309)	(69,387)	3,695	(134,495)
General and administrative	(12,075)	(2,590)	(22,452)	(168)	(37,285)
SBC (2) in operating expenses	(4,770)	(20,603)	(441)	448	(25,366)
Total operating expenses	(93,164)	(62,788)	(141,257)	5,139	(292,070)
Operating loss	(44,176)	(12,307)	(7,012)	1,690	(61,805)
Other income	1,399	103	434	(1,242)	694
Net interest income	2,635	402	5,742	0	8,779
Exchange difference	(14)	(78)	151	0	59
Loss before income tax expense	(40,156)	(11,880)	(685)	448	(52,273)
Income tax (expense) /benefit	(452)	0	2,192	0	1,740
Net income /(loss)	\$ (40,608)	\$ (11,880)	\$ 1,507	\$ 448	\$ (50,533)

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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.

	Three Months Ended June 30, 2015				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 146,508	\$ 147,491	\$ 202,154	\$ (2,587)	\$ 493,566
Segment cost of revenues	(100,984)	(60,399)	(59,635)	424	(220,594)
Segment gross profit	45,524	87,092	142,519	(2,163)	272,972
SBC (2) in cost of revenues	(508)	(54)	(44)	0	(606)
Gross profit	45,016	87,038	142,475	(2,163)	272,366
Operating expenses:					
Product development	(23,443)	(32,561)	(39,760)	1,227	(94,537)
Sales and marketing	(51,103)	(21,596)	(32,820)	2,404	(103,115)
General and administrative	(16,586)	(4,346)	(17,782)	(168)	(38,882)
SBC (2) in operating expenses	(8,791)	(2,059)	(7,047)	(37)	(17,934)
Total operating expenses	(99,923)	(60,562)	(97,409)	3,426	(254,468)
Operating profit /(loss)	(54,907)	26,476	45,066	1,263	17,898
Other income /(expense)	(1,045)	3	1,905	(1,300)	(437)
Net interest income	663	1,468	4,097	0	6,228
Exchange difference	(244)	(283)	(160)	0	(687)
Income /(loss) before income tax expense	(55,533)	27,664	50,908	(37)	23,002
Income tax expense	(1,926)	(2,084)	(7,509)	0	(11,519)
Net income /(loss)	\$ (57,459)	\$ 25,580	\$ 43,399	\$ (37)	\$ 11,483

Note (1): The elimination for segment revenues mainly consists of marketing services provided among the Sohu, Sogou and Changyou segments.

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

	Six Months Ended June 30, 2014				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 253,069	\$ 160,923	\$ 358,534	\$ (7,060)	\$ 765,466
Segment cost of revenues	(153,500)	(71,689)	(82,663)	453	(307,399)
Segment gross profit	99,569	89,234	275,871	(6,607)	458,067
SBC (2) in cost of revenues	(344)	(513)	(128)	0	(985)

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Gross profit	99,225	88,721	275,743	(6,607)	457,082
Operating expenses:					
Product development	(44,332)	(49,469)	(118,535)	2,343	(209,993)
Sales and marketing	(107,938)	(25,349)	(149,960)	7,101	(276,146)
General and administrative	(21,390)	(5,187)	(43,620)	(344)	(70,541)
SBC (2) in operating expenses	(7,515)	(23,429)	(637)	761	(30,820)
Total operating expenses	(181,175)	(103,434)	(312,752)	9,861	(587,500)
Operating loss	(81,950)	(14,713)	(37,009)	3,254	(130,418)
Other income	3,427	2,459	1,051	(2,493)	4,444
Net interest income	4,549	854	11,833	0	17,236
Exchange difference	(88)	(163)	888	0	637
Loss before income tax expense	(74,062)	(11,563)	(23,237)	761	(108,101)
Income tax benefit/(expense)	(3,349)	0	4,875	0	1,526
Net loss	\$ (77,411)	\$ (11,563)	\$ (18,362)	\$ 761	\$ (106,575)

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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	Six Months Ended June 30, 2015				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 277,874	\$ 263,799	\$ 410,851	\$ (3,626)	\$ 948,898
Segment cost of revenues	(206,479)	(111,366)	(125,203)	552	(442,496)
Segment gross profit	71,395	152,433	285,648	(3,074)	506,402
SBC (2) in cost of revenues	(663)	(107)	(88)	0	(858)
Gross profit	70,732	152,326	285,560	(3,074)	505,544
Operating expenses:					
Product development	(48,654)	(61,712)	(83,978)	2,392	(191,952)
Sales and marketing	(95,926)	(38,943)	(54,726)	3,597	(185,998)
General and administrative	(31,585)	(6,917)	(38,335)	(256)	(77,093)
SBC (2) in operating expenses	(12,143)	(6,943)	(10,907)	85	(29,908)
Total operating expenses	(188,308)	(114,515)	(187,946)	5,818	(484,951)
Operating profit /(loss)	(117,576)	37,811	97,614	2,744	20,593
Other income /(expense)	(57)	90	5,342	(2,658)	2,717
Net interest income	1,845	2,685	7,733	0	12,263
Exchange difference	(236)	(290)	(344)	0	(870)
Income /(loss) before income tax expense	(116,024)	40,296	110,345	86	34,703
Income tax expense	(4,551)	(3,314)	(19,954)	0	(27,819)
Net income /(loss)	\$ (120,575)	\$ 36,982	\$ 90,391	\$ 86	\$ 6,884

Note (1): The elimination for segment revenues mainly consists of marketing services provided among the Sohu, Sogou and Changyou segments.

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

	As of December 31, 2014				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
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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	As of June 30, 2015				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	\$ 354,090	\$ 293,619	\$ 354,270	\$ 0	\$ 1,001,979
Accounts receivable, net	158,864	21,918	85,789	(93)	266,478
Fixed assets, net	247,846	60,622	232,509	0	540,977
Total assets (1)	\$ 1,232,102	\$ 398,415	\$ 1,781,106	\$ (351,165)	\$ 3,060,458

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 June 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 June 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 June 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.

For Scheme I, as of June 30, 2015 compensation expense of \$4.2 million had been recognized with respect to the modification, and \$30,000 will be recognized in the consolidated statements of comprehensive income ratably over the remaining vesting period of the awards. For Scheme II, the compensation expense varies depending on 7Road's financial performance.

Share-based Compensation Expense Recognition

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Share-based compensation expense				
Cost of revenues	\$ 1,199	\$ 606	\$ 985	\$ 858
Product development expenses	7,294	6,235	9,947	11,011
Sales and marketing expenses	2,111	862	2,814	1,107
General and administrative expenses	15,962	10,837	18,060	17,791
	\$ 26,566	\$ 18,540	\$ 31,806	\$ 30,767

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 June 30,		Six Months Ended June 30,	
	2014	2015	2014	2015
Share-based compensation expense				
For Sohu (excluding Sohu Video) share-based awards	\$ 1,277	\$ 8,360	\$ 3,905	\$ 12,737

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For Sogou share-based awards (1)	20,603	2,144	22,935	6,936
For Changyou share-based awards	459	7,091	739	10,994
For Sohu Video share-based awards	4,227	945	4,227	100
	\$ 26,566	\$ 18,540	\$ 31,806	\$ 30,767

Note (1): Also includes 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 the Company repurchased in the second quarter of 2014.

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

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, available-for-sale equity securities under long-term investments, held-for-sale assets, 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, as well as repurchase options and a put option for Sogou Series A Preferred Shares.

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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.

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	As of December 31, 2014	Fair value measurements at reporting date using		
		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
Available-for-sale equity securities	11,273	11,273	0	0
Total	\$ 1,212,758	\$ 11,273	\$ 1,201,485	\$ 0

The following table sets forth the financial instruments, measured at fair value by level within the fair value hierarchy, as of June 30, 2015 (in thousands):

Items	As of June 30, 2015	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 317,395	\$ 0	\$ 317,395	\$ 0
Restricted time deposits	395,547	0	395,547	0
Short-term investments	197,086	0	197,086	0
Available-for-sale equity securities	22,078	22,078	0	0
Total	\$ 932,106	\$ 22,078	\$ 910,028	\$ 0

Cash Equivalents

The Sohu Group's cash equivalents mainly consist of time deposits and money market funds with original maturities of three months or less. The fair values of cash equivalents are determined based on the pervasive interest rates in the market. The Group classifies the valuation techniques that use the pervasive interest rates input as Level 2 of fair value measurements. Generally there are no quoted prices in active markets for identical cash equivalents at the reporting date. In order to determine the fair value, the Group must use the discounted cash flow method and observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Restricted Time Deposits

Restricted time deposits are valued based on the prevailing interest rates in the market using the discounted cash flow method. The Sohu Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

Collateral related to Sogou Incentive Shares Trust Arrangements

In February 2013, Sohu deposited \$9.0 million in cash into restricted time deposit accounts at a bank as collateral for credit facilities provided by the bank to certain Sogou employees. The facilities were intended to fund the employees early exercise of Sogou share options and related PRC individual income tax. Sohu is not subject to any additional potential payments other than the restricted time deposit amounts, and believes that the fair value of its guarantee liability is immaterial.

Table of Contents***Changyou Loans from Offshore Banks, Secured by Time Deposits***

Commencing in 2012, Changyou drew down loans from offshore branches of certain banks for the purposes of expediting the payment of a special one-time cash dividend to its shareholders, providing working capital to support its overseas operations, and funding its acquisitions and its share repurchase program. These bank loans are secured by an equivalent or greater amount of RMB deposits by Changyou in the onshore branches of such banks. The loans from the offshore branches of the lending banks are classified as short-term and long-term bank loans based on the loans payment terms.

As of June 30, 2015, the total amount of the bank loans was \$370.0 million, all of which carried a floating rate of interest based on the London Inter-Bank Offered Rate (LIBOR). These loans were secured by RMB deposits in onshore branches of those banks in the total amount of \$386.2 million. The deposited amounts are recognized as restricted time deposits. For the three and six months ended June 30, 2015, interest income from the restricted time deposits securing the loans was \$3.6 million and \$7.3 million, respectively, and interest expense on the bank loans was \$1.8 million and \$3.6 million, respectively. For the three and six months ended June 30, 2014, interest income from the restricted time deposits securing the loans was \$3.7 million and \$7.9 million, respectively, and interest expense on the bank loans was \$1.2 million and \$2.9 million, respectively.

Short-term Investments

In accordance with ASC 825, for investments in financial instruments with a variable interest rate indexed to performance of underlying assets, the Sohu Group elected the fair value method at the date of initial recognition and carried these investments at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive income as other income /(expense). To estimate fair value, the Group refers to the quoted rate of return provided by banks at the end of each period using the discounted cash flow method. The Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

As of June 30, 2015, the Sohu Group's investment in financial instruments was \$197.1 million. The investment instruments were issued by commercial banks in China, and have a variable interest rate indexed to performance of underlying assets. Since these investments' maturity dates are within one year, they are classified as short-term investments. For the three and six months ended June 30, 2015, the Sohu Group recorded in the consolidated statements of comprehensive income changes in the fair value of short-term investments in the amounts of \$0.8 million and \$1.2 million, respectively. For the three and six months ended June 30, 2014, the Sohu Group recorded in the consolidated statements of comprehensive income change in the fair value of short-term investments in the amount of nil and \$16,000, respectively.

Available-for-Sale Equity Securities

Available-for-sale equity securities are valued using the market approach based on the quoted prices in active markets at the reporting date. The Group classifies the valuation techniques that use these inputs as Level 1 of fair value measurements. On August 12, 2014, Sohu acquired approximately 6% of the total outstanding common shares of Keyeast Co., Ltd., a Korean-listed company (Keyeast), for a purchase price of \$15.1 million. The Sohu Group classified this investment as available-for-sale equity securities under long-term investments, and reported it at fair value. As of June 30, 2015, the fair value of the Keyeast available-for-sale equity securities held by Sohu was \$22.1 million. The unrealized gain representing the change in fair value of \$7.0 million was recorded as an addition to accumulated other comprehensive income in the Sohu Group's consolidated balance sheets.

Held-for-Sale Assets and Liabilities

In April 2015, Changyou entered into a series of definitive agreements to divest a number of its business assets, including:

- i) On April 15, 2015, Changyou's VIE Beijing Gamease Age Digital Technology Co., Ltd. (Gamease) entered into an agreement to sell all of the equity interests in Shenzhen 7Road Technology Co., Ltd. (Shenzhen 7Road), which is a wholly-owned subsidiary primarily undertaking the Web game business, to a PRC company.

- ii) On April 27, 2015, a subsidiary of Changyou, Changyou.com (HK) Limited, entered into an agreement to sell all of the equity capital of Changyou My Sdn. Bhd and Changyou.com (UK) Company Limited, which are wholly-owned subsidiaries of Changyou undertaking the online game business in Malaysia and the United Kingdom, respectively, to a British Virgin Islands company.

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The aggregate consideration contemplated by the agreements described above is approximately \$205 million.

The closings of the above transactions are subject to customary conditions.

As a consequence, the assets and liabilities attributable to the entities to be disposed of as described above are classified as assets and liabilities held for sale and measured at the lower of their carrying amounts and their fair values, less selling costs, in the consolidated balance sheet as of June 30, 2015. Details of the aggregate assets and liabilities at June 30, 2015 are as follows (in thousands):

	As of June 30, 2015
Cash and cash equivalents	\$ 14,871
Prepaid and other current assets	13,677
Goodwill	109,735
Fixed assets	6,567
Intangible assets	6,331
Deferred tax assets	364
Held-for-sale assets	\$ 151,545
Deferred tax liability	(959)
Accrued payroll and welfare	(628)
Deferred revenue	(138)
Tax payable	(1,054)
Held-for-sale liabilities	\$ (2,779)

Repurchase Options and Put Option for Sogou Series A Preferred Shares

In September 2013, Sogou entered into Repurchase Option Agreements with Sohu.com (Search) Limited (Sohu Search) and Photon Group Limited, the investment vehicle of the Sohu Group's Chairman and Chief Executive Officer Dr. Charles Zhang (Photon), and a Repurchase/Put Option Agreement with China Web Search (HK) Limited (China Web), with respect to Series A Preferred Shares of Sogou held by them. See Note 12 Sogou Transactions.

Sogou's repurchase options with Photon and China Web were initially recognized in additional paid-in capital in the Sohu Group's consolidated balance sheets at fair value when the agreements were signed. Any subsequent changes in the fair values of the repurchase options were not and will not be recognized. On March 24, 2014, Sogou purchased from China Web, pursuant to the Repurchase/Put Option Agreement between Sogou and China Web, 14.4 million Series A Preferred Shares of Sogou for an aggregate purchase price of \$47.3 million. As of June 30, 2015, the remaining balance for the repurchase option with Photon in additional paid-in capital was \$1.2 million, based on the fair value of the repurchase option on September 16, 2013.

China Web's put option with Sogou was initially recognized in other short-term liabilities in the Sohu Group's consolidated balance sheets at fair value when the agreement was signed. Subsequent changes in the fair value of the put option were recognized quarterly in other income/(expense) in the Sohu Group's consolidated statements of comprehensive income. After Sogou's repurchase of the Series A Preferred Shares from China Web on March 24, 2014, the other short-term liabilities recognized with respect to China Web were reversed to zero.

Management determined the fair values of the repurchase options with Photon and China Web when the agreements were signed, and of the put option with China Web before Sogou exercised the repurchase option, using the binominal model, with a discount for lack of marketability, given that the repurchase options and the put option were not publicly traded at the time of grant. Management made the determination with the assistance of a qualified professional appraiser using management's estimates and assumptions. The Sohu Group classifies the valuation techniques that use these inputs as Level 3 of fair value measurements.

Long-term Investment in SoEasy

In August 2014, Sohu invested \$4.8 million in SoEasy Internet Finance Group Limited (SoEasy) and in April 2015 Sohu invested an additional \$16.3 million in SoEasy. As of June 30, 2015, Sohu's accumulated investment in SoEasy was \$21.1 million and Sohu held approximately 34.9% of SoEasy's equity capital. Sohu continued to account for this investment under the equity method, since Sohu can exercise significant influence but does not own a majority of SoEasy's equity capital or control SoEasy.

Table of Contents***Short-term Receivables and Payables***

Accounts receivable and prepaid and other current assets are financial assets with carrying values that approximate fair value due to their short-term nature. Short-term accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans and other short-term liabilities are financial liabilities with carrying values that approximate fair value due to their short term nature.

For short-term bank loans, the rates of interest under the agreements with the lending banks were determined based on the prevailing interest rates in the market. The Sohu Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements. For other short-term receivables and payables, the Group estimated fair values using the discounted cash flow method, which is unobservable in the market. The Group classifies the valuation technique as Level 3 of fair value measurements.

Long-term Payables

Long-term accounts payable and long-term bank loans are financial liabilities with carrying values that approximate fair value due to any changes in fair value, after considering the discount rate, being immaterial. For long-term accounts payable and long-term bank loans, the Group estimated fair values using the discounted cash flow method, which is unobservable in the market. The Sohu Group classifies the valuation technique as Level 3 of fair value measurements.

5. Goodwill

Commencing in the second quarter of 2015, the Company's management did not consider the others segment to be significant enough to be separately reviewed. Therefore, in order to better reflect management's perspective, the Company combined the brand advertising segment and the others segment, and now identifies them together as the Sohu segment.

The changes in the carrying value of goodwill by segment are as follows (in thousands):

	Sohu	Sogou	Changyou	Total
Balance as of December 31, 2014				
Goodwill	\$ 73,908	\$ 6,309	\$ 297,999	\$ 378,216
Accumulated impairment losses	(35,788)	0	(39,002)	(74,790)
	\$ 38,120	\$ 6,309	\$ 258,997	\$ 303,426
Transactions in 2015				
Goodwill associated with the acquisition of 7Road transferred to held-for-sale assets (1)	0	0	(109,735)	(109,735)
Foreign currency translation adjustment	14	5	120	139
Balance as of June 30, 2015	\$ 38,134	\$ 6,314	\$ 149,382	\$ 193,830
Balance as of June 30, 2015				
Goodwill	\$ 73,922	\$ 6,314	\$ 188,384	\$ 268,620
Accumulated impairment losses	(35,788)	0	(39,002)	(74,790)

\$ 38,134 \$ 6,314 \$ 149,382 \$ 193,830

Note (1): The \$109.7 million goodwill associated with the acquisition of 7Road was transferred to held-for-sale assets.
See Note 4 Fair Value Measurements.

Table of Contents**6. Taxation**

Sohu.com Inc. is subject to United States (U.S.) income tax, and Changyou's income that is from a U.S. source is generally subject to U.S. income tax. The majority of the subsidiaries and VIEs of the Sohu Group are based in mainland China and are subject to income taxes in the PRC. These China-based subsidiaries and VIEs conduct substantially all of the Sohu Group's operations, and generate most of the Sohu Group's income or losses.

The Group did not have any penalties or significant interest associated with tax positions for the three and six months ended June 30, 2015, nor did the Group have any significant unrecognized uncertain tax positions for the three and six months ended June 30, 2015.

PRC Corporate Income Tax

The PRC Corporate Income Tax Law (the CIT Law) applies an income tax rate of 25% to all enterprises but grants preferential tax treatment to High and New Technology Enterprises (HNTEs). Under this preferential tax treatment, HNTEs can enjoy an income tax rate of 15% for three years, but need to re-apply after the end of the three-year period. In addition, the CIT Law and its implementing regulations provide that a Software Enterprise can enjoy an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. An entity that qualifies as a Key National Software Enterprise can enjoy a further reduced preferential income tax rate of 10% for two years, but needs to re-apply after the end of the two-year period.

Entities Qualified as HNTEs

As of June 30, 2015, the following principal entities of the Sohu Group were qualified as HNTEs and were entitled to an income tax rate of 15%.

For Sohu's Business

Beijing Sohu Internet Information Service Co., Ltd. (Sohu Internet). Sohu Internet re-applied for HNTE qualification in the second quarter of 2015. Pending approval of its re-application, Sohu Internet is entitled to continue to enjoy the beneficial tax rate as if it had already qualified as an HNTE for 2015.

Beijing Sohu New Era Information Technology Co., Ltd. (Sohu Era), Beijing Sohu New Media Information Technology Co., Ltd. (Sohu Media) and Guangzhou Qianjun Network Technology Co., Ltd (Guangzhou Qianjun). Sohu Era, Sohu Media and Guangzhou Qianjun are each qualified as HNTEs for 2015 and 2016, and will need to re-apply for HNTE qualification in 2017.

For Sogou's Business

Beijing Sogou Information Service Co., Ltd. (Sogou Information). Sogou Information re-applied for HNTE qualification in July 2015. Pending approval of its re-application, Sogou Information is entitled to continue to enjoy the beneficial tax rate as if it had already qualified as an HNTE for 2015.

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Beijing Sogou Technology Development Co., Ltd. (Sogou Technology). Sogou Technology is qualified as an HNTE for 2015 and 2016, and will need to re-apply for HNTE qualification in 2017.

For Changyou s Business

AmazGame, Gamease and Shenzhen 7Road. AmazGame, Gamease and Shenzhen 7Road are each qualified as HNTEs for 2015 and 2016, and will need to re-apply for HNTE qualification in 2017.

Entities Qualified as Software Enterprises

For Sohu s Business

Beijing Sohu New Momentum Information Technology Co., Ltd. (Sohu New Momentum). In 2015, Sohu New Momentum is in its second income tax exemption year as a Software Enterprise.

For Changyou s Business

AmazGame. AmazGame will need to re-apply before the end 2015 for designation as a Key National Software Enterprise in order to be entitled for 2015 and 2016 to the preferential income tax rate of 10% to which it was entitled for the initial two-year period of 2013 and 2014.

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Beijing Changyou Gamespace Software Technology Co., Ltd. (Gamespace). In 2015, Gamespace is in the second of the three years in which it is entitled to a 50% reduction to a rate of 12.5% as a Software Enterprise.

ICE Information Technology (Shanghai) Co., Ltd (ICE Information). ICE Information was not subject to income tax, as it incurred losses.

Shenzhen 7Road Network Technologies Co., Ltd. (7Road Technology). In 2015, 7Road Technology is in the first of the three years in which it is entitled to a 50% reduction to a rate of 12.5% as a Software Enterprise.

PRC Withholding Tax on Dividends

The CIT Law imposes a 10% withholding income tax for dividends distributed by foreign-invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between Mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under an arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to a withholding tax rate of 10%.

In order to fund the distribution of a dividend to shareholders of the Sohu Group's majority-owned subsidiary Changyou, Changyou's Board of Directors resolved to cause one of its PRC subsidiaries to declare and distribute a cash dividend of portions of its 2012 to 2015 stand-alone earnings to its direct overseas parent company, Changyou.com (HK) Limited (Changyou HK). With the exception of that dividend, the Sohu Group does not intend to have any of its PRC subsidiaries distribute any undistributed profits of such subsidiaries to their direct overseas parent companies, but rather intends that such profits will be permanently reinvested by such subsidiaries for their PRC operations.

As of June 30, 2015, Changyou had accrued deferred tax liabilities in the amount of \$24.2 million for PRC withholding tax.

PRC Value-Added Tax and Business Tax

Revenues from brand advertising and search and Web directory as well as revenues from Changyou's Web games that were not developed in-house are subject to value-added tax (VAT). VAT payable is the difference between the output VAT (at a rate of 6%) and available input VAT amount (at the rate applicable to the supplier). Revenues of 7Road's in-house-developed Web games that are deemed to be derived from the sale of software are subject to VAT. VAT is payable by 7Road at a rate of 17%, with a 14% immediate tax refund irrespective of the availability of any input VAT, resulting in a net rate of 3%. Other online game revenues from the operation of PC games and self-developed mobile games are subject to a 5% PRC business tax (Business Tax).

The Group adopted the net presentation method for its brand advertising and search and Web directory businesses. The Group adopted the gross presentation method for revenues of in-house-developed Web games that are deemed to be derived from the sale of software.

U.S. Corporate Income Tax

Sohu.com Inc. is a Delaware corporation that is subject to U.S. corporate income tax on its taxable income at a rate of up to 35%. To the extent that Sohu.com Inc. has U.S. taxable income, which generally arises mainly from interest income of the Sohu Group, the Group accrues U.S. corporate income tax in the Group's consolidated statements of comprehensive income and makes estimated tax payments as and when required by U.S. law.

Uncertain Tax Positions

The Group is subject to various taxes in different jurisdictions, primarily the US and the PRC. Management reviews regularly the adequacy of the provisions for taxes as they relate to the income and transactions of the Group. In order to assess uncertain tax positions, the Sohu Group applies a more likely than not threshold and a two-step approach for tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

Table of Contents**7. Commitments and Contingencies*****Contractual Obligations***

The following table sets forth our contractual obligations as of June 30, 2015 (in thousands):

As of June 30, 2015	Contractual Obligation
Repayment of principal of bank loans	\$ 370,000
Purchase of content and services video	96,658
Purchase of bandwidth	79,673
Purchase of cinema advertisement slot rights	55,825
Operating lease obligations	40,387
Expenditures for operating rights for licensed games with technological feasibility PC games	27,434
Purchase of content and services others	17,908
Interest payment commitment	13,635
Expenditures for operating rights for licensed games with technological feasibility mobile games	5,522
Fees for operating rights for licensed games in development mobile games	2,831
Fees for operating rights for licensed games in development PC games	1,692
Others	4,286
Total	\$ 715,851

Litigation

The Sohu Group is a party to various litigation matters which it considers routine and incidental to its business. Management does not expect the results of any of these actions to have a material adverse effect on the Group's business, results of operations, financial condition and cash flows.

PRC Law and Regulations

The Chinese market in which the Sohu Group operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability to operate an Internet business and to conduct brand advertising, search and Web directory, online game, and others services in the PRC. Though the PRC has, since 1978, implemented a wide range of market-oriented economic reforms, continued reforms and progress towards a full market-oriented economy are uncertain. In addition, the telecommunication, information, and media industries remain highly regulated. Restrictions are currently in place and are unclear with respect to which segments of these industries foreign-owned entities, like the Sohu Group, may operate. The Chinese government may issue from time to time new laws or new interpretations of existing laws to regulate areas such as telecommunication, information and media. Certain risks related to PRC law that could affect the Sohu Group's VIE structure are discussed in Note 9 VIEs.

Regulatory risks also encompass interpretation by PRC tax authorities of current tax law, including the applicability of certain preferential tax treatments. The Sohu Group's legal structure and scope of operations in China could be subject to restrictions, which could result in limits on its ability to conduct business in the PRC.

The Sohu Group's sales, purchase and expense transactions are generally denominated in RMB and a significant portion of its assets and liabilities are denominated in RMB. The RMB is not freely convertible into foreign currencies. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions. Remittances in currencies other than RMB by its subsidiaries in China may require certain supporting documentation in order to effect the remittance.

8. Contingent Consideration

Changyou's acquisition of Beijing Doyo Internet Technology Co., Ltd. (Doyo) included a contingent consideration arrangement that requires additional consideration to be paid by Changyou based on the achievement of specified performance milestones by Doyo for the fiscal years 2013 through 2015. The fair value of the contingent consideration was recognized on the acquisition date using the income approach /discounted cash flow method with a scenario analysis applied. There were no indemnification assets involved. In 2015, as Doyo's performance had exceeded the relevant performance milestone for 2014, Changyou re-classed such contingent consideration to other short-term liabilities.

Table of Contents**9. VIEs*****Background***

PRC laws and regulations prohibit or restrict foreign ownership of companies that operate Internet information and content, Internet access, online games, mobile, value added telecommunications and certain other businesses in which the Sohu Group is engaged or could be deemed to be engaged. Consequently, the Sohu Group conducts certain of its operations and businesses in the PRC through its VIEs. The Sohu Group consolidates in its consolidated financial statements all of the VIEs of which the Group is the primary beneficiary.

VIEs Consolidated within the Sohu Group

The Sohu Group adopted the guidance of accounting for VIEs, which requires VIEs to be consolidated by the primary beneficiary of the entity. Management made evaluations of the relationships between the Sohu Group and its 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 contractual arrangements with its consolidated VIEs, the Sohu Group controls the shareholders' voting interests in those VIEs. As a result of such evaluation, the management concluded that the Sohu Group is the primary beneficiary of the VIEs which the Group consolidates.

All of the consolidated VIEs are incorporated and operated in the PRC, and the Group's principal VIEs are directly or indirectly owned by Dr. Charles Zhang, the Sohu Group's Chairman and Chief Executive Officer, or other executive officers and employees of the Sohu Group identified below. Capital for the consolidated VIEs was funded by the Sohu Group through loans provided to Dr. Charles Zhang and other executive officers and employees, and was initially recorded as loans to related parties. These loans are eliminated for accounting purposes against the capital of the VIEs upon consolidation.

Under contractual agreements with the Sohu Group, Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs are required to transfer their ownership in these entities to the Group, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Group at any time as requested by the Group to repay the loans outstanding. All voting rights of the consolidated VIEs are assigned to the Sohu Group, and the Group has the right to designate all directors and senior management personnel of the consolidated VIEs, and also has the obligation to absorb losses of the consolidated VIEs. Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs have pledged their shares in the consolidated VIEs as collateral for the loans. As of June 30, 2015, the aggregate amount of these loans was \$14.3 million.

Under its contractual arrangements with the consolidated VIEs, the Sohu Group has the power to direct activities of the VIEs, and can have assets transferred freely out of the VIEs without any restrictions. Therefore, the Group considers that there is no asset of a consolidated VIE that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves of the VIEs. As of June 30, 2015, the registered capital and PRC statutory reserves of the consolidated VIEs totaled \$83.4 million. As all of the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the consolidated VIEs do not have recourse to the general credit of the Sohu Group for any of the liabilities of the consolidated VIEs. Currently there is no contractual arrangement that could require the Sohu Group to provide additional financial support to the consolidated VIEs. As the Sohu Group is conducting certain business in the PRC mainly through the consolidated VIEs, the Group may provide such support on a discretionary basis in the future, which could expose the Group to a loss.

The Sohu Group classified the consolidated VIEs within the Sohu Group as principal VIEs or immaterial VIEs based on certain criteria, such as the VIEs' total assets or revenues. The following is a summary of the principal VIEs within the Sohu Group:

Basic Information for Principal VIEs

For Sohu's Business

High Century

Beijing Century High Tech Investment Co., Ltd. (High Century) was incorporated in 2001. As of June 30, 2015, the registered capital of High Century was \$4.6 million and Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.

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Sohu Internet

Sohu Internet was incorporated in 2003. As of June 30, 2015, the registered capital of Sohu Internet was \$1.6 million and High Century and Heng Da Yi Tong held 75% and 25% interests, respectively, in this entity.

Donglin

Beijing Sohu Donglin Advertising Co., Ltd. (Donglin) was incorporated in 2010. In the second quarter of 2015, High Century transferred its 50% equity interest in Donglin to Sohu Internet. As of June 30, 2015, the registered capital of Donglin was \$1.5 million and Sohu Internet held a 100% interest in this entity.

Heng Da Yi Tong

Beijing Heng Da Yi Tong Information Technology Co., Ltd. (Heng Da Yi Tong), formally known as Beijing Sohu Entertainment Culture Media Co., Ltd. (Sohu Entertainment), was incorporated in 2002. As of June 30, 2015, the registered capital of Heng Da Yi Tong was \$1.2 million and Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.

Focus Interactive

Beijing Focus Interactive Information Service Co., Ltd. (Focus Interactive) was incorporated in July 2014. In the second quarter of 2015, High Century transferred its 100% equity interest in Focus Interactive to Heng Da Yi Tong. As of June 30, 2015, the registered capital of Focus Interactive was \$1.6 million and Heng Da Yi Tong held 100% of the equity interests in this entity.

Tianjin Jinhua

Tianjin Jinhua Culture Development Co., Ltd. (Tianjin Jinhua) was incorporated in 2011. As of June 30, 2015, the registered capital of Tianjin Jinhua was \$0.5 million and Ye Deng and Xuemei Zhang each held a 50% interest in this entity.

Guangzhou Qianjun

Guangzhou Qianjun was incorporated in October 2014. As of June 30, 2015, the registered capital of Guangzhou Qianjun was \$3.3 million and Tianjin Jinhua held a 100% interest in this entity.

For Sogou's Business

Sogou Information

Sogou Information was incorporated in 2005. As of June 30, 2015, the registered capital of Sogou Information was \$2.5 million and Xiaochuan Wang, Sogou's Chief Executive Officer, High Century and Tencent held 10%, 45% and 45% interests, respectively, in this entity.

For Changyou's Business:

Gamease

Gamease was incorporated in 2007. In the second quarter of 2015, Changyou completed the transfer of the equity interests in Gamease held by Tao Wang, the former Chief Executive Officer of Changyou, and Dewen Chen, the current Co-Chief Executive Officer of Changyou, to High Century. As of June 30, 2015, the registered capital of Gamease was \$1.3 million and High Century held a 100% interest in this entity.

Table of Contents**Guanyou Gamespace**

Guanyou Gamespace was incorporated in 2010. As of June 30, 2015, the registered capital of Guanyou Gamespace was \$1.5 million and Tao Wang and Dewen Chen held 60% and 40% interests, respectively, in this entity. In July 2015, Changyou completed the transfer of the equity interests in Guanyou Gamespace held by Tao Wang and Dewen Chen to Gamease.

Shanghai ICE

Shanghai ICE was acquired by Changyou in 2010. As of June 30, 2015, the registered capital of Shanghai ICE was \$1.2 million and Runa Pi and Rong Qi each held a 50% interest in this entity. As of the date of this report, Changyou is still in the process of transfer each individual shareholders' equity interests in Shanghai ICE to entities that are affiliates of the Sohu Group.

Shenzhen 7Road

68.258% of the equity interests of Shenzhen 7Road were acquired by Gamease in 2011. The remaining 31.742% of the equity interests of Shenzhen 7Road were acquired by Gamease on May 1, 2013. As of June 30, 2015, the registered capital of Shenzhen 7Road was \$1.5 million and Gamease held 100% of the equity interests in this entity.

Wuhan Baina Information

Baina (Wuhan) Information Technology Co., Ltd. (Wuhan Baina Information) was acquired by Gamease in July 2014. As of June 30, 2015, the registered capital of Wuhan Baina Information was \$3.0 million and Gamease and Yongzhi Yang, the chief executive officer of MoboTap, held 60% and 40% interests, respectively, in this entity.

Financial Information

The following financial information of the Sohu Group's consolidated VIEs is included in the accompanying consolidated financial statements (in thousands):

	As of	
	December 31, 2014	June 30, 2015
ASSETS:		
Cash and cash equivalents	\$ 39,534	\$ 108,648
Restricted time deposit	294	294
Accounts receivable, net	129,881	151,461
Prepaid and other current assets	23,827	25,780
Held-for-sale assets	0	150,753
Intercompany receivables due from the Company's subsidiaries	176,902	210,844
Total current assets	370,438	647,780

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Fixed assets, net	12,597	9,747
Goodwill	154,774	45,160
Intangible assets, net	39,726	28,214
Other non-current assets	79,115	74,914
Total assets	\$ 656,650	\$ 805,815
LIABILITIES:		
Accounts payable	\$ 3,495	\$ 22,636
Accrued liabilities	78,051	68,083
Receipts in advance and deferred revenue	53,641	54,813
Held-for-sale liabilities	0	7,832
Other current liabilities	53,564	161,805
Intercompany payables due to the Company's subsidiaries	259,009	299,219
Total current liabilities	447,760	614,388
Other long-term liabilities	25,262	22,686
Total liabilities	\$ 473,022	\$ 637,074

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	Three months ended June 30,		Six months ended June 30,	
	2014	2015	2014	2015
Net revenue	\$ 254,129	\$ 311,563	\$ 505,249	\$ 616,594
Net loss	\$ (43,785)	\$ (9,691)	\$ (88,459)	\$ (17,539)

For the table below, consolidated VIEs under the Sohu segment and the Sogou segment are classified as Sohu's VIEs, and consolidated VIEs under the Changyou segment are classified as Changyou's VIEs.

Cash flows of Sohu's VIEs

	Six months ended June 30,	
	2014	2015
Net cash provided by operating activities	\$ 15,935	\$ 74,112
Net cash used in investing activities	(979)	(126)
Net cash provided by financing activities	\$ 0	\$ 569

Cash flows of Changyou's VIEs

	Six months ended June 30,	
	2014	2015
Net cash provided by /(used in) operating activities	\$ 23,802	\$ (33,539)
Net cash provided by /(used in) investing activities	(84,578)	44,713
Net cash used in financing activities	\$ (793)	\$ 0

*Summary of Significant Agreements Currently in Effect**Agreements Between Consolidated VIEs and Nominee Shareholders*

Loan and share pledge agreements between Sohu Era and the shareholders of High Century and Heng Da Yi Tong: These loan agreements provide for loans to the shareholders of High Century and Heng Da Yi Tong for them to make contributions to the registered capital of High Century and Heng Da Yi Tong in exchange for the equity interests in High Century and Heng Da Yi Tong, and under these pledge agreements the shareholders pledge those equity interests to Sohu Era as security for the loans. The loan agreements include powers of attorney that give Sohu Era the power to appoint nominees to act on behalf of the shareholders of High Century and Heng Da Yi Tong in connection with all actions to be taken by High Century and Heng Da Yi Tong. Pursuant to the loan agreements, the shareholders executed in blank transfers of their equity interests in High Century and Heng Da Yi Tong, which transfers are held by the Sohu Group's legal department and may be completed and effected at Sohu Era's election.

Loan and share pledge agreements between Sogou Technology and the shareholders of Sogou Information. The loan agreement provides for a loan to Xiaochuan Wang, the individual shareholder of Sogou Information, to be used by him to make contributions to the registered capital of Sogou Information in exchange for his equity interest in Sogou Information. The loan is interest free and is repayable on demand, but the shareholder may repay the loan only by transferring to Sogou Technology his equity interest in Sogou Information. Under the pledge agreement, all of the shareholders of Sogou Information pledge their equity interests to Sogou Technology to secure the performance of

their obligations under the various VIE-related agreements. If any shareholder of Sogou Information breaches any of his or its obligations under any VIE-related agreements, Sogou Technology is entitled to exercise its right as the beneficiary under the share pledge agreement. The share pledge agreement terminates only after all of the obligations of the shareholders under the various VIE-related agreements are no longer in effect.

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Exclusive equity interest purchase right agreements between Sogou Technology, Sogou Information and the shareholders of Sogou Information. Pursuant to these agreements, Sogou Technology and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Sogou Information all or any part of their equity interests at the lowest purchase price permissible under PRC law.

Business operation agreement among Sogou Technology, Sogou Information and the shareholders of Sogou Information. The agreement sets forth the right of Sogou Technology to control the actions of the shareholders of Sogou Information. The agreement has a term of 10 years, renewable at the request of Sogou Technology.

Powers of Attorney executed by the shareholders of Sogou Information in favor of Sogou Technology with a term of 10 years, extendable at the request of Sogou Technology. These powers of attorney give Sogou Technology the right to appoint nominees to act on behalf of each of the three Sogou Information shareholders in connection with all actions to be taken by Sogou Information.

Loan agreements and equity pledge agreements between Video Tianjin and the shareholders of Tianjin Jinhu. The loan agreements provide for loans to the shareholders of Tianjin Jinhu for them to make contributions to the registered capital of Tianjin Jinhu in exchange for the equity interests in Tianjin Jinhu. Under the equity pledge agreements, the shareholders of Tianjin Jinhu pledge to Video Tianjin their equity interests in Tianjin Jinhu to secure the performance of their obligations under the loan agreements and Tianjin Jinhu's obligations to Video Tianjin under their business agreements. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to Video Tianjin their equity interests in Tianjin Jinhu.

Equity interest purchase right agreements between Video Tianjin, Tianjin Jinhu and the shareholders of Tianjin Jinhu. Pursuant to these agreements, Video Tianjin and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Tianjin Jinhu all or any part of their equity interests at the lowest purchase price permissible under PRC law.

Business operation agreement among Video Tianjin, Tianjin Jinhu and the shareholders of Tianjin Jinhu. The agreement sets forth the right of Video Tianjin to control the actions of the shareholders of Tianjin Jinhu. The agreement has a term of 10 years, renewable at the request of Video Tianjin.

Powers of Attorney executed by the shareholders of Tianjin Jinhu in favor of Video Tianjin with a term of 10 years, extendable at the request of Video Tianjin. These powers of attorney give Video Tianjin the right to appoint nominees to act on behalf of each of the Tianjin Jinhu shareholders in connection with all actions to be taken by Tianjin Jinhu.

Loan agreements and equity pledge agreements between AmazGame and the shareholders of Gamease and between Gamespace and the shareholders of Guanyou Gamespace. The loan agreements provide for loans to the respective shareholders of Gamease and Guanyou Gamespace for the shareholders to make contributions to the registered capital of Gamease and Guanyou Gamespace in exchange for the equity interests in Gamease and Guanyou Gamespace. Under the equity pledge agreements, the respective shareholders of Gamease and Guanyou Gamespace pledge to AmazGame and Gamespace, their equity interests in Gamease and Guanyou Gamespace to secure the performance of their obligations under the loan agreements and Gamease's and Guanyou Gamespace's obligations to AmazGame and Gamespace under the various VIE-related agreements. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to AmazGame and Gamespace, as the case may be, their equity interests in Gamease and Guanyou Gamespace.

Equity interest purchase right agreements between AmazGame and the shareholders of Gamease and between Gamespace and the shareholders of Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the respective shareholders of Gamease and Guanyou Gamespace all or any part of their equity interests at a purchase price equal to their initial contributions to registered capital.

Powers of attorney executed by the shareholders of Gamease in favor of AmazGame and by the shareholders of Guanyou Gamespace in favor of Gamespace, with a term of 10 years. These powers of attorney give AmazGame and Gamespace the exclusive right to appoint nominees to act on behalf of their respective shareholders in connection with all actions to be taken by Gamease and Guanyou Gamespace.

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Business operation agreements between AmazGame and the shareholders of Gamease and between Gamespace and the shareholders of Guanyou Gamespace. These agreements set forth the right of AmazGame and Gamespace to control the actions of the respective shareholders of Gamease and Guanyou Gamespace. Each agreement has a term of 10 years.

Call option agreement among ICE Information, Shanghai ICE and Shanghai ICE shareholders. This agreement provides to ICE Information and any third party designated by ICE Information the right, exercisable at any time during the term of the agreement, if and when it is legal to do so under PRC law, to purchase from the shareholders all or any part of their shares in Shanghai ICE or purchase from Shanghai ICE all or part of its assets or business at the lowest purchase price permissible under PRC law. The agreement further provides that Shanghai ICE or its shareholders will transfer back to ICE Information any such purchase price they have received from ICE Information, upon the request of ICE Information, as and to the extent allowed under PRC law. The agreement terminates only if ICE Information is dissolved.

Share pledge agreement among ICE Information, Shanghai ICE and the shareholders of Shanghai ICE. Pledge by the shareholders to ICE Information of their equity interests in Shanghai ICE, to secure the performance of their obligations and Shanghai ICE's obligations under the various VIE-related agreements. If Shanghai ICE or any of the shareholders of Shanghai ICE breaches its, his or her obligations under any VIE-related agreements, ICE Information is entitled to exercise its rights as pledgee of the equity interests.

Business operation agreement among ICE Information, Shanghai ICE and the shareholders of Shanghai ICE. This agreement sets forth the right of ICE Information to control the actions of the shareholders of Shanghai ICE. This agreement terminates only if ICE Information is dissolved.

Amended and restated equity interest purchase right agreement among 7Road Technology, Shenzhen 7Road and Gamease, which is Shenzhen 7Road's sole shareholder. Under this agreement, 7Road Technology and any third-party designated by 7Road Technology have the right, exercisable at any time during the term of the agreement, if and when it is legal to do so under PRC law, to purchase from Gamease all or any part of its shares in Shenzhen 7Road at a nominal purchase price. This agreement has a term of 10 years, is renewable by 7Road Technology for such term as it may determine and is terminable by 7Road Technology by notice to the other parties at any time when, under PRC law as then in effect, 7Road Technology cannot exercise its purchase right, and is also terminable if Shenzhen 7Road's or 7Road's existence is terminated, by mutual agreement of the parties or upon the written request of 7Road Technology. Neither Gamease nor Shenzhen 7Road has any power to terminate the agreement.

Amended and restated equity interest pledge agreement among 7Road Technology, Shenzhen 7Road and Gamease. Under this agreement, Gamease pledges to 7Road Technology Gamease's equity interests in Shenzhen 7Road to secure the performance of Gamease's obligations and Shenzhen 7Road's obligations under the various VIE-related agreements. If Gamease or Shenzhen 7Road breaches its obligations under any VIE-related agreements, 7Road Technology is entitled to exercise its rights as the beneficiary under the Equity Interest Pledge Agreements. This agreement terminates only after all of the obligations of Gamease and/or of Shenzhen 7Road under the various VIE-related agreements are no longer in effect.

Amended and restated business operation agreement among 7Road Technology, Shenzhen 7Road and Gamease. This agreement grants to 7Road Technology the right to control the actions of Shenzhen 7Road and to control the actions of Gamease in its capacity as the sole shareholder of Shenzhen 7Road. This agreement has an initial term of 10 years, is renewable by 7Road Technology for such term as it may determine and is terminable early if the existence of Shenzhen 7Road or 7Road Technology is terminated, or upon 30 days' advance written notice of 7Road Technology to Shenzhen 7Road.

Power of attorney executed by Gamease in favor of 7Road Technology. This power of attorney gives 7Road Technology the exclusive right to appoint designees to act on behalf of Gamease in connection with all actions to be taken by Shenzhen 7Road requiring shareholder approval.

Share pledge agreement among Beijing Baina Technology, Wuhan Baina Information and the shareholders of Wuhan Baina Information, which are Gamease and Yongzhi Yang. Pledge by the Gamease and Yongzhi Yang to Beijing Baina Technology of their equity interests in Wuhan Baina Information, to secure the performance of their respective obligations and Wuhan Baina Information's obligations under the various VIE-related agreements. If Wuhan Baina Information or any of the shareholders of Wuhan Baina Information breaches its or his obligations under any VIE-related agreements, Beijing Baina Technology is entitled to exercise its rights as pledgee of the equity interests.

Call option agreement among Beijing Baina Technology, Gamease, Wuhan Baina Information and Yongzhi Yang. Provides to Beijing Baina Technology and any third party designated by Beijing Baina Technology the right, exercisable at any time during the term of the agreement, if and when it is legal to do so under PRC law, to purchase from Gamease and Yongzhi Yang all or any part of their shares in Wuhan Baina Information or to purchase from Wuhan Baina Information all or part of its assets or business at the lowest purchase price permissible under PRC law.

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Assignment agreement among Beijing Baina Technology, Gamease, Wuhan Baina Information and Yongzhi Yang. Gamease and Yongzhi Yang, as shareholders of Wuhan Baina Information, irrevocably appoint Beijing Baina Technology or its designee to exercise their voting and other rights as shareholders of Wuhan Baina Information.

Business Arrangements Between Subsidiaries and Consolidated VIEs

Exclusive technology consulting and service agreement between Sohu Era and Soh