

SOHU COM INC
Form 10-Q
August 08, 2014
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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, 2014

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, 2014
Common stock, \$.001 par value	38,476,961

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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)**

	June 30, 2014	As of December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,050,362	\$ 1,287,288
Restricted time deposits	372,058	393,087
Short-term investments	0	2,827
Investments in debt securities	0	82,009
Accounts receivable, net	164,906	154,342
Prepaid and other current assets	139,978	132,002
Total current assets	1,727,304	2,051,555
Fixed assets, net	549,233	564,442
Goodwill	207,541	208,795
Intangible assets, net	99,926	107,108
Restricted time deposits	9,305	40,961
Prepaid non-current assets	8,704	9,527
Other assets	32,143	16,327
Total assets	\$ 2,634,156	\$ 2,998,715
LIABILITIES		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities (VIEs) without recourse to the Company of \$4,762 and \$16,167, respectively, as of June 30, 2014 and December 31, 2013)	\$ 126,059	\$ 125,896
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of \$75,749 and \$79,041, respectively, as of June 30, 2014 and December 31, 2013)	201,984	227,018
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of \$43,050 and \$60,140, respectively, as of June 30, 2014 and December 31, 2013)	102,104	113,328
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$3,265 and \$3,241, respectively, as of	113,504	90,901

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June 30, 2014 and December 31, 2013)

Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of \$6,567 and \$7,616, respectively, as of June 30, 2014 and December 31, 2013)	38,850	48,324
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$3, as of both June 30, 2014 and December 31, 2013)	20,601	18,813
Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both June 30, 2014 and December 31, 2013)	257,000	410,331

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Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of \$18,620 and \$253,933, respectively, as of June 30, 2014 and December 31, 2013)	66,366	79,798
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of \$2,867 and nil, respectively, as of June 30, 2014 and December 31, 2013)	2,867	0
Total current liabilities	929,335	1,114,409
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of \$1,554 and \$1,621, respectively, as of June 30, 2014 and December 31, 2013)	5,331	6,252
Long-term taxes payable (including long-term taxes payable of consolidated VIEs without recourse to the Company of nil as of both June 30, 2014 and December 31, 2013)	24,820	24,835
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIEs without recourse to the Company of \$3,106 and \$3,777, respectively, as of June 30, 2014 and December 31, 2013)	11,180	12,337
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of \$1,498 and \$4,162, respectively, as of June 30, 2014 and December 31, 2013)	1,498	4,162
Total long-term liabilities	42,829	47,586
Total liabilities	972,164	1,161,995
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Sohu.com Inc. shareholders equity:		
Common stock: \$0.001 par value per share (75,400 shares authorized; 38,477 shares and 38,326 shares, respectively, issued and outstanding as of June 30, 2014 and December 31, 2013)	44	44
Additional paid-in capital	652,185	601,633
Treasury stock (5,889 shares as of both June 30, 2014 and December 31, 2013)	(143,858)	(143,858)
Accumulated other comprehensive income	106,958	116,304
Retained earnings	632,638	752,582
Total Sohu.com Inc. shareholders equity	1,247,967	1,326,705
Noncontrolling interest	414,025	510,015
Total shareholders equity	1,661,992	1,836,720
Total liabilities and shareholders equity	\$ 2,634,156	\$ 2,998,715

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

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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	2013	2014	2013
Revenues:				
Online advertising:				
Brand advertising	\$ 133,408	\$ 100,191	\$ 244,511	\$ 180,428
Search and others	85,064	46,171	149,373	82,223
Subtotal of online advertising revenues	218,472	146,362	393,884	262,651
Online games	153,877	168,295	317,265	335,716
Others	27,802	24,247	54,317	48,133
Total revenues	400,151	338,904	765,466	646,500
Cost of revenues:				
Online advertising:				
Brand advertising	82,898	51,556	147,038	96,434
Search and others	40,420	24,498	72,157	45,290
Subtotal of cost of online advertising revenues	123,318	76,054	219,195	141,724
Online games	30,263	22,981	56,849	45,630
Others	16,305	14,610	32,340	29,820
Total cost of revenues	169,886	113,645	308,384	217,174
Gross profit	230,265	225,259	457,082	429,326
Operating expenses:				
Product development	102,218	63,361	219,940	115,180
Sales and marketing	136,606	71,678	278,960	130,401
General and administrative	53,246	25,772	88,600	48,361
Total operating expenses	292,070	160,811	587,500	293,942
Operating profit /(loss)	(61,805)	64,448	(130,418)	135,384
Other income	694	1,532	4,444	4,063
Net interest income	8,779	5,498	17,236	12,199
Exchange difference	59	(1,984)	637	(3,969)

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Income /(loss) before income tax expense	(52,273)	69,494	(108,101)	147,677
Income tax benefit /(expense)	1,740	(16,251)	1,526	(36,269)
Net income /(loss)	(50,533)	53,243	(106,575)	111,408
Less: Net income /(loss) attributable to the mezzanine-classified noncontrolling interest shareholders	0	7,112	0	17,780
Net income /(loss) attributable to the noncontrolling interest shareholders	(9,443)	24,505	(14,378)	47,571
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	0	27,747	0
Net income /(loss) attributable to Sohu.com Inc.	\$ (41,090)	\$ 21,626	\$ (119,944)	\$ 46,057

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Net income /(loss)	(50,533)	53,243	(106,575)	111,408
Other comprehensive income /(loss): Foreign currency translation adjustment, net of tax	(255)	20,429	(13,079)	25,232
Comprehensive income /(loss)	(50,788)	73,672	(119,654)	136,640
Less: Comprehensive income /(loss) attributable to the mezzanine-classified noncontrolling interest shareholders	0	7,112	0	17,780
Comprehensive income /(loss) attributable to noncontrolling interest shareholders	(9,485)	28,800	(18,111)	52,932
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	0	27,747	0
Comprehensive income /(loss) attributable to Sohu.com Inc.	(41,303)	37,760	(129,290)	65,928
Basic net income /(loss) per share attributable to Sohu.com Inc.	\$ (1.07)	\$ 0.57	\$ (3.12)	\$ 1.21
Shares used in computing basic net income /(loss) per share attributable to Sohu.com Inc.	38,475	38,259	38,443	38,214
Diluted net income /(loss) per share attributable to Sohu.com Inc.	\$ (1.16)	\$ 0.56	\$ (3.18)	\$ 1.16
Shares used in computing diluted net income /(loss) per share attributable to Sohu.com Inc.	38,475	38,492	38,443	38,461

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

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SOHU.COM INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net income /(loss)	\$ (106,575)	\$ 111,408
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	38,751	23,833
Share-based compensation expense	14,771	2,325
Amortization of intangible assets and purchased video content in prepaid expense	64,562	32,309
Impairment of intangible assets	412	1,444
Provision for allowance for doubtful accounts	471	(386)
Investment income from investments in debt securities	(1,370)	(2,748)
Change in fair value of put option	(2,304)	0
Others	1,299	(1,507)
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(12,082)	(38,516)
Prepaid and other assets	(2,978)	(24,002)
Accounts payable	(9,168)	5,534
Receipts in advance and deferred revenue	(10,582)	1,141
Taxes payable	(9,337)	1,744
Deferred tax	(17,058)	6,133
Accrued and other short-term liabilities	20,847	33,014
Net cash provided by /(used in) operating activities	(30,341)	151,726
Cash flows from investing activities:		
Purchase of noncontrolling interest in 7Road	0	(76,010)
Purchase of fixed assets	(56,070)	(48,655)
Purchase of intangible and other assets	(54,363)	(38,942)
Proceeds received from maturity of debt securities	82,009	0
Cash received /(paid) related to restricted time deposits	48,764	(90,963)
Proceeds from /(purchase of) short-term investments, net	2,827	(40,682)
Other cash proceeds related to investing activities	1,687	93
Net cash provided by /(used in) investing activities	24,854	(295,159)
Cash flows from financing activities:		
Issuance of common stock	425	784
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
Proceeds /(repayments) of loans from offshore banks	(153,193)	81,000
Payment of contingent consideration	(2,813)	(19,736)
Exercise of share-based awards in subsidiary	404	1,324

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Proceeds received from early exercise of share-based awards in subsidiary	0	5,278
Net cash provided by /(used in) financing activities	(226,994)	68,650
Effect of exchange rate changes on cash and cash equivalents	(4,445)	11,790
Net decrease in cash and cash equivalents	(236,926)	(62,993)

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Cash and cash equivalents at beginning of period	1,287,288	833,535
Cash and cash equivalents at end of period	\$ 1,050,362	\$ 770,542
Supplemental cash flow disclosures:		
Barter transactions	721	374
Supplemental schedule of non-cash investing activity:		
Consideration payable for purchase of noncontrolling interest in 7Road	0	2,000
Changes in government grant in prepaid and other current assets	0	1,066

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						
	Additional			Accumulated			
	Total	Common Stock	Paid-in Capital	Treasury Stock	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
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 from							
China Web	1,584	0	1,584	0	0	0	0
Purchase of equity interests of a VIE from a third party shareholder	(809)	0	11	0	0	0	(820)
Share-based compensation expense	14,753	0	11,029	0	0	0	3,724
Settlement of share-based awards in subsidiary	790	0	11,227	0	0	0	(10,437)
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	(106,575)	0	0	0	0	(92,197)	(14,378)
Foreign currency translation adjustment, net of tax	(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, 2013

(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	\$ 1,315,217	\$ 44	\$ 364,092	\$ (143,858)	\$ 79,542	\$ 784,403	\$ 230,994
Issuance of common stock	784	0	784	0	0	0	0
Share-based compensation expense	2,286	0	1,581	0	0	0	705
Purchase of noncontrolling interest in 7Road	2,257	0	1,517	0	0	0	740
Settlement of share-based awards in subsidiary	1,323	0	7,348	0	0	0	(6,025)
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	93,628	0	0	0	0	46,057	47,571
Foreign currency translation adjustment, net of tax	25,232	0	0	0	19,871	0	5,361
Ending balance	\$ 1,440,727	\$ 44	\$ 375,322	\$ (143,858)	\$ 99,413	\$ 830,460	\$ 279,346

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. (Sohu or the Company), 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). The Company, together with its wholly-owned and majority-owned subsidiaries and variable interest entities (collectively the Sohu Group or the Group), mainly offers online advertising services and online game services.

Online advertising and online games are the core businesses of the Sohu Group.

Online Advertising

The online advertising business consists of the brand advertising business as well as the search and others business.

Brand Advertising Business

The Sohu Group's brand advertising business offers to its users, over its matrices of Chinese language online media content and services, various products and services (such as free of charge content, including news, video, interactive community and other competitive Internet services and membership services) across multiple Internet-enabled devices, such as PCs, mobile phones and tablets. It also offers advertisements on Sohu Group Web properties to companies seeking to increase their brand awareness online.

Search and Others Business

The search and others business, provided by Sohu's search subsidiary Sogou Inc. (Sogou), primarily offers customers pay-for-click services, as well as online marketing services on the Sogou Web Directory.

On September 16, 2013, pursuant to a Subscription Agreement entered into on that date by and among Sogou, THL A21 Limited, a wholly-owned subsidiary of Tencent Holdings Limited (Tencent Holdings Limited together with its subsidiaries, Tencent); Sohu's wholly-owned subsidiary Sohu.com (Search) Limited, a Cayman Islands company (Sohu Search); and Photon Group Limited (Photon), the investment vehicle of the Sohu Group's Chairman and Chief Executive Officer Dr. Charles Zhang, and a series of other contracts also entered into on that date between Sogou and Tencent, Tencent invested a net amount of \$448 million in cash in Sogou and transferred its Soso search-related businesses and certain other assets to Sogou (collectively, the Sogou-Tencent Transactions).

On September 16, 2013, Sogou entered into (i) a Repurchase Option Agreement with Sohu Search, exercisable commencing March 16, 2014, granting to Sogou the right to purchase 24 million Series A Preferred Shares of Sogou held by Sohu Search for an aggregate purchase price of \$78.8 million; (ii) a Repurchase Option Agreement with Photon, also exercisable commencing March 16, 2014, granting to Sogou the right to purchase 6.4 million Series A Preferred Shares of Sogou held by Photon for an aggregate purchase price of \$21 million; and (iii) a Repurchase/Put

Option Agreement with China Web Search (HK) Limited (China Web), an investment vehicle of Yunfeng Capital, granting to Sogou the right to purchase at any time from March 16, 2014 to July 31, 2014, and granting to China Web the right to put to Sogou at any time prior to July 31, 2014, 14.4 million Series A Preferred Shares of Sogou held by China Web for an aggregate purchase price of \$47.3 million.

On September 16, 2013, Sogou, Sohu Search, Photon, Mr. Xiaochuan Wang, four other members of Sogou's management (collectively, the Sohu Parties) and Tencent entered into a Shareholders Agreement (the Shareholders Agreement) under which the parties agreed to vote their Sogou voting shares in all elections of directors to elect three designees of Sohu Search and two designees of Tencent.

On September 17, 2013, Sogou paid a special dividend to the three holders of Series A Preferred Shares of Sogou in the aggregate amount of \$301 million, of which Sohu Search received \$161 million, Photon received \$43 million, and China Web received \$97 million.

On December 2, 2013, Tencent invested \$1.5 million in cash in Beijing Sogou Information Service Co., Ltd. (Sogou Information), a VIE of Sogou, as additional consideration in connection with the Sogou-Tencent Transactions.

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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.

In June 2014, Sogou repurchased approximately 4.2 million of its Class A Ordinary Shares from non-controlling shareholders, some of whom are employees of the Group, for an aggregate purchase price of \$41.6 million.

Pursuant to the Shareholders Agreement, Sohu will hold approximately 53% of the total voting power for the election of the Board of Directors of Sogou, assuming that the remaining repurchase options are exercised, Tencent's non-voting Class B Ordinary Shares are converted to voting shares, and all share options under the Sogou 2010 Share Incentive Plan and all share options under an arrangement providing for Sogou share-based awards to be available for grants to Sohu management and key employees (the Sohu Management Sogou Share Option Arrangement) are granted and exercised. As Sohu is the controlling shareholder of Sogou, Sohu consolidates Sogou in the Sohu Group's consolidated financial statements, and recognizes noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu.

Online Games

The online game business is conducted by Sohu's majority-owned subsidiary Changyou.com Limited (Changyou). Changyou is a leading online game developer and operator in China as measured by the popularity of its massively multiplayer online game (MMOG) Tian Long Ba Bu (TLBB) and its Web games DDTank and Wartune (also known as Shen Qu), which Changyou developed in-house. Changyou engages in the development, operation and licensing of online games for PCs and mobile devices. Changyou's online games include MMOGs, which are interactive online games that may be played simultaneously by hundreds of thousands of game players, Web games, which are played over the Internet using a Web browser, and mobile games, which are played on mobile devices with an Internet connection.

Basis of Consolidation and Recognition of Noncontrolling Interest

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

VIE Consolidation

The Sohu Group adopted the guidance of accounting for VIEs, which requires VIEs to be consolidated by the primary beneficiary of the entity. For consolidated VIEs, management made evaluations of the relationships between the Sohu Group and the VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, the Group controls the shareholders' voting interests in these VIEs. As a result of such evaluation, management concluded that the Sohu Group is the primary beneficiary of its consolidated VIEs. The Sohu Group has two VIEs that are not consolidated, since the Group is not the primary beneficiary.

Noncontrolling Interest Recognition

Noncontrolling interests are recognized to reflect the portion of the equity of majority-owned subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholders.

Basis of Presentation

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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, 2013.

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, 2014 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

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Commencing in the first quarter of 2014, the Group reclassified the mobile business to the others business, because the Group did not consider the mobile business to be significant enough to constitute a separately-disclosed revenue stream. The mobile business offers mobile related services through mobile products to mobile phone users through cooperation with China mobile network operators. The mobile products consist primarily of short messaging services (SMS), mobile video, ring-back tones (RBT), and interactive voice response (IVR). A majority of the content is purchased from third-party content providers. To conform to current period presentations, certain comparative figures for prior periods have been reclassified accordingly. Such reclassifications amounted to \$15.3 million and \$29.1 million, respectively, for revenues and \$9.0 million and \$18.2 million, respectively, for costs for the three months and six months ended June 30, 2013.

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 expense, are not reviewed by the CODM. These items are disclosed in the segment information for reconciliation purposes only.

In connection with the reclassification of the mobile business to the others business, as the CODM no longer reviewed the mobile business as a separate segment, the Group reclassified the mobile segment to the others segment from the first quarter of 2014. There are four reportable segments in the Group, consisting of brand advertising, Sogou (which mainly consists of search and others business), Changyou (which mainly consists of the online game business) and others business. 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 reportable segment (in thousands):

	Three Months Ended June 30, 2014						
	Brand Advertising and Others		Brand Advertising and Others	Sogou	Changyou	Eliminations	Consolidated
	Brand Advertising	Others	Others				
Revenues (1)	\$ 121,685	\$ 13,400	\$ 135,085	\$ 90,951	\$ 177,781	\$ (3,666)	\$ 400,151
Segment cost of revenues	(78,582)	(6,815)	(85,397)	(39,988)	(43,519)	217	(168,687)
Segment gross profit/(loss)	\$ 43,103	\$ 6,585	49,688	50,963	134,262	(3,449)	231,464
SBC (2) in cost of revenues			(700)	(482)	(17)	0	(1,199)
Gross profit			48,988	50,481	134,245	(3,449)	230,265

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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 profit /(loss)	(44,176)	(12,307)	(7,012)	1,690	(61,805)
Other income /(expense)	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
Income /(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)

Note (1): The elimination for segment revenues mainly consists of revenues from marketing services provided by the brand advertising segment (banner advertisements etc.) to the Changyou segment.

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

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Three Months Ended June 30, 2013								
Brand Advertising and Others								
	Brand Advertising and Others		Brand Advertising and Others		Sogou	Changyou	Eliminations	Consolidated
	Brand Advertising	Others	Brand Advertising	and Others				
Revenues (1)	\$ 92,298	\$ 17,837	\$ 110,135	\$ 49,874	\$ 182,371	\$ (3,476)	\$ 338,904	
Segment cost of revenues	(48,372)	(9,800)	(58,172)	(24,495)	(30,976)	96	(113,547)	
Segment gross profit /(loss)	\$ 43,926	\$ 8,037	51,963	25,379	151,395	(3,380)	225,357	
SBC (2) in cost of revenues			(60)	(3)	(35)	0	(98)	
Gross profit			51,903	25,376	151,360	(3,380)	225,259	
Operating expenses:								
Product development			(22,115)	(14,650)	(26,188)	0	(62,953)	
Sales and marketing			(46,960)	(9,447)	(18,450)	3,380	(71,477)	
General and administrative			(9,699)	(2,428)	(13,113)	0	(25,240)	
SBC (2) in operating expenses			(535)	(261)	(347)	2	(1,141)	
Total operating expenses			(79,309)	(26,786)	(58,098)	3,382	(160,811)	
Operating profit /(loss)			(27,406)	(1,410)	93,262	2	64,448	
Other income /(expense)			937	82	513	0	1,532	
Net interest income			1,171	272	4,055	0	5,498	
Exchange difference			(458)	143	(1,669)	0	(1,984)	
Income /(loss) before income tax expense			(25,756)	(913)	96,161	2	69,494	
Income tax (expense) /benefit			(2,366)	(6)	(13,879)	0	(16,251)	
Net income /(loss)			\$ (28,122)	\$ (919)	\$ 82,282	\$ 2	\$ 53,243	

Note (1): The elimination for segment revenues mainly consists of revenues from marketing services provided by the brand advertising segment (banner advertisements etc.) to the Changyou segment.

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

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	Six Months Ended June 30, 2014							
	Brand Advertising and Others		Brand Advertising and Others		Sogou	Changyou	Eliminations	Consolidated
	Brand Advertising	Others	Brand Advertising	Others				
Revenues (1)	\$ 226,255	\$ 26,814	\$ 253,069	\$ 160,923	\$ 358,534	\$ (7,060)	\$ 765,466	
Segment cost of revenues	(139,451)	(14,049)	(153,500)	(71,689)	(82,663)	453	(307,399)	
Segment gross profit /(loss)	\$ 86,804	\$ 12,765	99,569	89,234	275,871	(6,607)	458,067	
SBC (2) in cost of revenues			(344)	(513)	(128)	0	(985)	
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 profit /(loss)			(81,950)	(14,713)	(37,009)	3,254	(130,418)	
Other income /(expense)			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	
Income /(loss) before income tax expense			(74,062)	(11,563)	(23,237)	761	(108,101)	
Income tax (expense) /benefit			(3,349)	0	4,875	0	1,526	
Net income /(loss)			\$ (77,411)	\$ (11,563)	\$ (18,362)	\$ 761	\$ (106,575)	

Note (1): The elimination for segment revenues mainly consists of revenues from marketing services provided by the brand advertising segment (banner advertisements etc.) to the Changyou segment.

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

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	Six Months Ended June 30, 2013							
	Brand Advertising and Others		Brand Advertising and Others		Sogou	Changyou	Eliminations	Consolidated
	Brand Advertising	Others	Brand Advertising	Others				
Revenues (1)	\$ 167,966	\$ 36,240	\$ 204,206	\$ 89,204	\$ 359,956	\$ (6,866)	\$ 646,500	
Segment cost of revenues	(90,593)	(20,343)	(110,936)	(45,285)	(61,005)	220	(217,006)	
Segment gross profit /(loss)	\$ 77,373	\$ 15,897	93,270	43,919	298,951	(6,646)	429,494	
SBC (2) in cost of revenues			(138)	(5)	(25)	0	(168)	
Gross profit			93,132	43,914	298,926	(6,646)	429,326	
Operating expenses:								
Product development			(40,808)	(27,431)	(46,183)	0	(114,422)	
Sales and marketing			(87,833)	(17,374)	(31,467)	6,646	(130,028)	
General and administrative			(17,450)	(4,068)	(25,817)	0	(47,335)	
SBC (2) in operating expenses			(1,159)	(411)	(589)	2	(2,157)	
Total operating expenses			(147,250)	(49,284)	(104,056)	6,648	(293,942)	
Operating profit /(loss)			(54,118)	(5,370)	194,870	2	135,384	
Other income /(expense)			2,161	86	1,816	0	4,063	
Net interest income			3,638	606	7,955	0	12,199	
Exchange difference			(582)	147	(3,534)	0	(3,969)	
Income /(loss) before income tax expense			(48,901)	(4,531)	201,107	2	147,677	
Income tax (expense) /benefit			(5,751)	(6)	(30,512)	0	(36,269)	
Net income /(loss)			\$ (54,652)	\$ (4,537)	\$ 170,595	\$ 2	\$ 111,408	

Note (1): The elimination for segment revenues mainly consists of revenues from marketing services provided by the brand advertising segment (banner advertisements etc.) to the Changyou segment.

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

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As of June 30, 2014

	Brand Advertising and Others	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	\$ 494,051	\$ 163,090	\$ 393,221	\$ 0	\$ 1,050,362
Accounts receivable, net	107,497	19,902	37,599	(92)	164,906
Fixed assets, net	254,225	47,347	247,661	0	549,233
Total assets (1)	\$ 1,138,858	\$ 252,290	\$ 1,397,671	\$ (154,663)	\$ 2,634,156

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

As of December 31, 2013

	Brand Advertising and Others	Sogou	Changyou	Eliminations
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