

SOHU COM INC
Form 10-Q
November 07, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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 September 30, 2014
Common stock, \$.001 par value	38,486,906

Table of Contents**SOHU.COM INC.****Table of Contents**

	PAGE
PART I	
<u>FINANCIAL INFORMATION</u>	3
Item 1	3
	3
	3
	5
	7
	9
	11
Item 2	50
Item 3	76
Item 4	77
PART II	
<u>OTHER INFORMATION</u>	78
Item 1	78
Item 1A	78
Item 2	78
Item 3	78
Item 4	79
Item 5	79
Item 6	79
	80
	81

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	
	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 840,896	\$ 1,287,288
Restricted time deposits	299,861	393,087
Short-term investments	209,508	2,827
Investments in debt securities	0	82,009
Accounts receivable, net	179,994	154,342
Prepaid and other current assets	123,060	132,002
Total current assets	1,653,319	2,051,555
Fixed assets, net	541,903	564,442
Goodwill	320,586	208,795
Long-term investments, net	25,638	3,726
Intangible assets, net	123,539	107,108
Restricted time deposits	143,825	40,961
Prepaid non-current assets	8,709	9,527
Other assets	34,351	12,601
Total assets	\$ 2,851,870	\$ 2,998,715
LIABILITIES		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities (VIEs) without recourse to the Company of \$3,102 and \$16,167, respectively, as of September 30, 2014 and December 31, 2013)	\$ 135,966	\$ 125,896
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of \$85,463 and \$79,041, respectively, as of September 30, 2014 and December 31, 2013)	228,192	227,018
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of \$41,743 and \$60,140, respectively, as of September 30, 2014 and December 31, 2013)	111,810	113,328

Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$3,395 and \$3,241, respectively, as of September 30, 2014 and December 31, 2013)	123,852	90,901
Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of \$11,088 and \$7,616, respectively, as of September 30, 2014 and December 31, 2013)	30,750	48,324
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$3 as of both September 30, 2014 and December 31, 2013)	21,500	18,813

Table of Contents

Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both September 30, 2014 and December 31, 2013)	0	410,331
Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of \$23,570 and \$253,933, respectively, as of September 30, 2014 and December 31, 2013)	91,736	79,798
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of \$2,950 and nil, respectively, as of September 30, 2014 and December 31, 2013)	2,950	0
Total current liabilities	746,756	1,114,409
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of \$1,529 and \$1,621, respectively, as of September 30, 2014 and December 31, 2013)	5,211	6,252
Long-term bank loans (including long-term bank loans of consolidated VIEs without recourse to the Company of nil as of both September 30, 2014 and December 31, 2013)	370,000	0
Long-term taxes payable (including long-term taxes payable of consolidated VIEs without recourse to the Company of nil as of both September 30, 2014 and December 31, 2013)	24,820	24,835
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$2,795 and \$3,777, respectively, as of September 30, 2014 and December 31, 2013)	10,685	12,337
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of \$1,541 and \$4,162, respectively, as of September 30, 2014 and December 31, 2013)	1,839	4,162
Total long-term liabilities	412,555	47,586
Total liabilities	1,159,311	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; 38,487 shares and 38,326 shares, respectively, issued and outstanding as of September 30, 2014 and December 31, 2013)	44	44
Additional paid-in capital	652,627	601,633
Treasury stock (5,889 shares as of September 30, 2014 and December 31, 2013)	(143,858)	(143,858)
Accumulated other comprehensive income	105,800	116,304
Retained earnings	605,500	752,582
Total Sohu.com Inc. shareholders equity	1,220,113	1,326,705
Noncontrolling interest	472,446	510,015
Total shareholders equity	1,692,559	1,836,720
Total liabilities and shareholders equity	\$ 2,851,870	\$ 2,998,715

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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Online advertising:				
Brand advertising	\$ 148,823	\$ 124,780	\$ 393,334	\$ 305,208
Search and others	98,437	52,305	247,810	134,528
Subtotal of online advertising revenues	247,260	177,085	641,144	439,736
Online games	150,338	161,494	467,603	497,210
Others	32,817	29,744	87,134	77,877
Total revenues	430,415	368,323	1,195,881	1,014,823
Cost of revenues:				
Online advertising:				
Brand advertising	83,424	63,780	230,462	160,214
Search and others	46,375	26,785	118,532	72,075
Subtotal of cost of online advertising revenues	129,799	90,565	348,994	232,289
Online games	33,949	21,750	90,798	67,381
Others	17,912	13,175	50,252	42,994
Total cost of revenues	181,660	125,490	490,044	342,664
Gross profit	248,755	242,833	705,837	672,159
Operating expenses:				
Product development	107,971	70,551	327,911	185,731
Sales and marketing	131,742	90,728	410,702	221,129
General and administrative	49,730	29,365	138,330	77,726
Total operating expenses	289,443	190,644	876,943	484,586
Operating profit /(loss)	(40,688)	52,189	(171,106)	187,573
Other income	896	1,533	5,340	5,596
Net interest income	7,468	7,595	24,704	19,794
Exchange difference	(610)	(1,305)	27	(5,274)

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Income /(loss) before income tax benefit /(expense)	(32,934)	60,012	(141,035)	207,689
Income tax benefit /(expense)	1,036	(18,923)	2,562	(55,192)
Net income/(loss)	(31,898)	41,089	(138,473)	152,497
Less: Net income attributable to the mezzanine-classified noncontrolling interest shareholders	0	0	0	17,780
Net income /(loss) attributable to the noncontrolling interest shareholders	(4,760)	22,855	(19,138)	70,426
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	82,423	27,747	82,423
Net loss attributable to Sohu.com Inc.	\$ (27,138)	\$ (64,189)	\$ (147,082)	\$ (18,132)
Net income /(loss)	(31,898)	41,089	(138,473)	152,497
Other comprehensive income /(loss)	(1,005)	8,249	(14,084)	33,481

-5-

Table of Contents

Comprehensive income /(loss)	(32,903)	49,338	(152,557)	185,978
Less: Comprehensive income attributable to the mezzanine-classified noncontrolling interest shareholders	0	0	0	17,780
Comprehensive income /(loss) attributable to noncontrolling interest shareholders	(4,607)	24,749	(22,718)	77,681
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	0	82,423	27,747	82,423
Comprehensive income /(loss) attributable to Sohu.com Inc.	\$ (28,296)	\$ (57,834)	\$ (157,586)	\$ 8,094
Basic net loss per share attributable to Sohu.com Inc.	\$ (0.71)	\$ (1.68)	\$ (3.82)	\$ (0.47)
Shares used in computing basic net loss per share attributable to Sohu.com Inc.	38,485	38,288	38,457	38,239
Diluted net loss per share attributable to Sohu.com Inc.	\$ (0.74)	\$ (1.69)	\$ (3.91)	\$ (0.53)
Shares used in computing diluted net loss per share attributable to Sohu.com Inc.	38,485	38,522	38,457	38,481

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