

SOHU COM INC
Form 10-Q
August 07, 2009
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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, 2009**

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)
Level 12, Sohu.com Internet Plaza
No. 1 Unit Zhongguancun East Road, Haidian District
Beijing 100084
People's Republic of China
(011) 8610-6272-6666

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

(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

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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, 2009
Common stock, \$.001 par value	38,333,567

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SOHU.COM INC.

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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, 2009	As of December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 546,746	\$ 314,425
Accounts receivable, net	53,333	36,869
Prepaid and other current assets	10,833	27,551
Total current assets	610,912	378,845
Fixed assets, net	74,974	76,237
Goodwill	55,555	55,555
Intangible assets, net	5,207	5,654
Restricted cash		2,671
Other assets, net	2,358	2,914
Total assets	\$ 749,006	\$ 521,876
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 6,716	\$ 4,339
Accrued liabilities to suppliers and agents	34,184	33,054
Receipts in advance and deferred revenue	28,320	31,446
Tax payables	21,680	18,892
Other accrued liabilities	43,480	43,051
Total current liabilities	134,380	130,782
Commitments and contingencies (Note 8)		
Shareholders' equity		
Sohu.com Inc. shareholders' equity:		
Common stock: \$0.001 par value per share (75,400 authorized; 38,334 and 38,095 shares issued and outstanding, respectively)	43	43
Additional paid-in capital	310,165	201,196
Treasury stock (4,638 shares)	(74,683)	(74,683)
Accumulated other comprehensive income	21,361	21,349
Retained earnings	316,171	238,041
Total Sohu.com Inc. shareholders' equity	573,057	385,946
Noncontrolling interest (Note 9)	41,569	5,148

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Total shareholders' equity	614,626	391,094
Total liabilities and shareholders' equity	\$ 749,006	\$ 521,876

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Advertising:				
Brand advertising	\$ 43,621	\$ 41,691	\$ 82,695	\$ 74,846
Sponsored search	1,769	1,693	3,331	3,307
Subtotal of advertising revenues	45,390	43,384	86,026	78,153
Online game	66,596	47,896	128,203	88,851
Wireless and others	15,099	10,700	28,594	19,799
Total revenues	127,085	101,980	242,823	186,803
Cost of revenues:				
Advertising:				
Brand advertising	14,065	13,907	27,795	25,159
Sponsored search	2,265	1,605	4,563	3,125
Subtotal of cost of advertising revenues	16,330	15,512	32,358	28,284
Online game	3,937	3,505	7,373	6,713
Wireless and others	8,512	5,858	16,641	10,170
Total cost of revenues	28,779	24,875	56,372	45,167
Gross profit	98,306	77,105	186,451	141,636
Operating expenses:				
Product development	14,637	10,798	27,951	22,277
Sales and marketing	25,810	21,408	42,636	37,548
General and administrative	9,208	4,827	17,102	11,012
Amortization of intangible assets	128	199	202	395
Total operating expenses	49,783	37,232	87,891	71,232
Operating profit	48,523	39,873	98,560	70,404
Other income (expense)	62	(575)	63	(532)
Interest income and exchange difference	1,274	1,480	2,396	1,646
Income before income tax expense	49,859	40,778	101,019	71,518
Income tax expense	7,969	577	14,555	9,762
Income from continuing operations	41,890	40,201	86,464	61,756
Gain (loss) from discontinued e-commerce operations	446		446	(1)
Net income	42,336	40,201	86,910	61,755
Less: Net income attributable to the noncontrolling interest (Note 9)	8,801	12	8,780	4

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Net income attributable to Sohu.com Inc.	\$ 33,535	\$ 40,189	\$ 78,130	\$ 61,751
Basic net income per share attributable to Sohu.com Inc.	\$ 0.88	\$ 1.05	\$ 2.04	\$ 1.63
Shares used in computing basic net income per share attributable to Sohu.com Inc.	38,284	38,108	38,223	37,934
Diluted net income per share attributable to Sohu.com Inc.	\$ 0.79	\$ 1.02	\$ 1.94	\$ 1.57
Shares used in computing diluted net income per share attributable to Sohu.com Inc.	39,018	39,429	38,935	39,234

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,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 86,910	\$ 61,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,833	6,154
Share-based compensation expense	8,901	5,668
Amortization of intangible assets and other assets	902	1,582
Provision for allowance for doubtful accounts	485	137
Reversal of excess tax benefits/(excess tax benefits) from share-based payment arrangements	678	(2,465)
Others	209	940
Changes in current assets and liabilities:		
Prepaid and other current assets	13,692	(14,167)
Accounts receivable	(16,704)	(6,888)
Tax payables	1,700	12,955
Accrued liabilities to suppliers and agents	1,130	6,078
Receipts in advance and deferred revenue	(3,126)	10,296
Accounts payable	2,377	1,317
Other accrued liabilities	(1,623)	15,503
Net cash provided by operating activities	103,364	98,865
Cash flows from investing activities:		
Purchase of fixed assets	(4,954)	(17,266)
Purchase of intangible and other assets	(137)	(624)
Decrease in restricted cash	2,671	1,489
Net cash used in investing activities	(2,420)	(16,401)
Cash flows from financing activities:		
Issuance of common stock	3,015	11,872
(Reversal of excess tax benefits)/excess tax benefits from share-based payment arrangements	(678)	2,465
Cash contributions received from a noncontrolling interest shareholder		427
Proceeds from Changyou's initial public offering	128,340	
Other proceeds relating to financing activities	1,087	
Other payments relating to financing activities	(263)	
Net cash provided by financing activities	131,501	14,764
Effect of exchange rate changes on cash and cash equivalents	(124)	6,049
Net increase in cash and cash equivalents	232,321	103,277
Cash and cash equivalents at beginning of period	314,425	122,706
Cash and cash equivalents at end of period	\$ 546,746	\$ 225,983

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, 2009

(In thousands)

	Sohu.com Inc. Shareholders Equity							
	Total	Comprehensive Income	Common stock	Additional Paid-in Capital	Treasury stock	Accumulated		
Comprehensive Income						Retained Earnings	Other	
Beginning balance	\$ 391,094	\$	\$ 43	\$ 201,196	\$ (74,683)	\$ 21,349	\$ 238,041	\$ 5,148
Issuance of common stock	3,015			3,015				
Compensatory share-based awards	8,901			6,260				2,641
Reversal of excess tax benefits from share-based awards	(858)			(858)				
Comprehensive income:								
Net income	86,910	86,910					78,130	8,780
Other comprehensive income:								
Foreign currency translation adjustment	189	189				12		177
Total other comprehensive income	189	189						
Total comprehensive income	87,099	\$ 87,099						
Recognition of change in Sohu's economic interests in Changyou	125,375			100,552				24,823
Ending balance	\$ 614,626		\$ 43	\$ 310,165	\$ (74,683)	\$ 21,361	\$ 316,171	\$ 41,569

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, 2008

(In thousands)

	Sohu.com Inc. Shareholders Equity							
			Additional			Accumulated		
	Total	Comprehensive	Common	Paid-in	Treasury	Comprehensive	Retained	Noncontrolling
		Income	stock	Capital	stock	Income	Earnings	Interest
Beginning balance	\$ 218,904	\$	\$ 42	\$ 182,225	\$ (54,686)	\$ 11,912	\$ 79,404	\$ 7
Contributions received from a noncontrolling interest shareholder	427							427
Issuance of common stock	11,872		1	11,871				
Compensatory share-based awards	5,668			3,137				2,531
Excess tax benefits from share-based awards	2,629			2,629				
Comprehensive income:								
Net income	61,755	61,755					61,751	4
Other comprehensive income:								
Foreign currency translation adjustment	8,880	8,880				8,864		16
Total other comprehensive income	8,880	8,880						
Total comprehensive income	70,635	\$ 70,635						
Ending balance	\$ 310,135		\$ 43	\$ 199,862	\$ (54,686)	\$ 20,776	\$ 141,155	\$ 2,985

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 Internet company providing comprehensive online products and services 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) mainly offer advertising services (through brand advertising and sponsored search), online game services and wireless services through Internet sites: sohu.com, 17173.com, focus.cn, chinaren.com, sogou.com, and changyou.com.

Brand advertising and online game are two core businesses of the Sohu Group. The brand advertising business provides advertisements on the group's portal matrix to advertisers who wish to build up their brand awareness online. The online game business is conducted by one of the Sohu's majority-owned subsidiaries Changyou.com Limited (Changyou), which operates two massively multi-player online role-playing games (MMORPGs), Tian Long Ba Bu (TLBB) and Blade Online (BO). TLBB is Changyou's first in-house developed MMORPG and is one of the most popular online games in China.

Basis of Consolidation

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

As further discussed in Note 2 below, in April 2009, Changyou completed its initial public offering on the NASDAQ Global Select Market. Subsequent to the offering, Sohu's economic interests in Changyou decreased from 100% to approximately 74.4% and Sohu's voting power decreased from 100% to 80.8%. As Sohu is Changyou's controlling shareholder, Changyou's financial results have been consolidated with those of Sohu for all periods presented. To reflect the economic interests in Changyou held by other shareholders, Changyou's results of operations attributable to these shareholders are recorded as noncontrolling interest (NCI) in Sohu's consolidated statements of operations. Additionally, Changyou's cumulative results of operations attributable to these shareholders, along with its changes in shareholders' equity and adjustment for share-based compensation in relation to unvested share-based awards, are recorded as NCI in Sohu's consolidated balance sheets. See Note 2 - Changyou Transactions - Sohu's Shareholding in Changyou and Note 9 - Noncontrolling Interest.

Basis of Presentation

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 three and six months ended June 30, 2009 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

Certain amounts from prior periods have been reclassified to conform to current period presentation.

These financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States (US 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 US 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, 2008.

2. CHANGYOU TRANSACTIONS

Share Award to Tao Wang, Chief Executive Officer of Changyou

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In January 2008, Sohu communicated to and agreed with Tao Wang, who is now the chief executive officer of Changyou, to grant him 700,000 ordinary shares and 800,000 restricted ordinary shares, in lieu of his contingent right in Beijing Fire Fox Digital Technology Co., Ltd. (Beijing Fire Fox), which was one of Sohu's subsidiaries devoted to the development of TLBB. The 800,000 restricted ordinary shares were subject to a four-year vesting period commencing on February 1, 2008. In addition, Tao Wang would not be entitled to participate in any distributions on Changyou shares, whether or not vested, until the earlier of Changyou's completion of an initial public offering or February 2012, and in any event entitlement to distributions would be subject to vesting of the shares.

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In January 2009, under Changyou's 2008 Share Incentive Plan described below, Changyou issued 700,000 of its Class B ordinary shares and 800,000 of its Class B restricted ordinary shares to Tao Wang through Prominence Investments Ltd. ("Prominence"), which is an entity deemed under applicable Securities and Exchange Commission ("SEC") rules to be beneficially owned by Tao Wang.

In February 2009, 200,000 Class B restricted ordinary shares held by Prominence became fully vested. Upon this vesting, the number of Class B ordinary shares held beneficially by Tao Wang increased to 900,000 shares and the number of Class B restricted ordinary shares held beneficially by Tao Wang decreased to 600,000 shares.

In March 2009, Changyou effected a ten-for-one share split that resulted in the aforementioned 900,000 Class B ordinary shares and 600,000 Class B restricted ordinary shares becoming 9,000,000 Class B ordinary shares and 6,000,000 Class B restricted ordinary shares, respectively.

Changyou's 2008 Share Incentive Plan

On December 31, 2008, Changyou reserved 2,000,000 of its ordinary shares, which included 1,774,000 Class B ordinary shares and 226,000 Class A ordinary shares, for issuance to its executive officers and key employees as incentive compensation under Changyou's 2008 Share Incentive Plan. The aforementioned 700,000 ordinary shares and 800,000 restricted ordinary shares granted to Tao Wang through Prominence were granted under this incentive plan.

In March 2009, the 2,000,000 reserved ordinary shares were subject to a ten-for-one share split effected by Changyou and became 20,000,000 ordinary shares.

Initial Public Offering of Changyou

On April 7, 2009, Changyou completed its initial public offering on the NASDAQ Global Select Market, trading under the symbol "CYOU".

The initial public offering consisted of American depositary shares ("ADSs"), with each ADS representing two Class A ordinary shares. Changyou's ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and holders of Class B ordinary shares have the same rights in Changyou, with the exception of voting and conversion rights. Each Class A ordinary share is entitled to one vote on all matters subject to a shareholder vote, and each Class B ordinary share is entitled to ten votes on all matters subject to a shareholder vote. Each Class B ordinary share is convertible into one Class A ordinary share at any time at the election of the holder. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

At the closing of the initial public offering, Changyou issued and sold 7,500,000 Class A ordinary shares represented by 3,750,000 ADSs, and Sohu, through its indirectly wholly-owned subsidiary Sohu.com (Game) Limited ("Sohu Game"), sold 9,750,000 Class A ordinary shares represented by 4,875,000 ADSs, including 2,250,000 Class A ordinary shares represented by 1,125,000 ADSs sold pursuant to the exercise of the underwriters' over-allotment option.

Proceeds to Changyou and Sohu from this initial public offering were approximately \$55.8 million and \$72.5 million, respectively, for total proceeds of approximately \$128.3 million, after deducting underwriting discounts and commissions but before deducting offering expenses. After deduction of offering expenses, net proceeds to Changyou and Sohu were approximately \$54.7 million and \$70.7 million, respectively, for total net proceeds of approximately \$125.4 million.

Sohu's Shareholding in Changyou

Shareholding and Control

Following the completion of the offering, Changyou has 102,500,000 Class A and Class B ordinary shares issued and outstanding. Those outstanding shares consist of (1) 70,250,000 Class B ordinary shares held by Sohu through Sohu Game; (2) 15,000,000 Class B ordinary shares held by Tao Wang through Prominence, including 6,000,000 Class B restricted ordinary shares that were not vested as of the completion of the offering; and (3) 17,250,000 Class A ordinary shares held by public shareholders. This share structure remains unchanged as of June 30, 2009.

As of June 30, 2009, treating all of Tao Wang's 15,000,000 Class B ordinary shares as owned by Tao Wang, Sohu holds 68.5% of the combined total Changyou's outstanding Class A and Class B ordinary shares and controls 80.8% of the total voting power in Changyou. As a result, Sohu has the power to elect the entire board of directors of Changyou and determine the outcome of all matters submitted to a shareholder vote.

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As Changyou's controlling shareholder, Sohu will continue to consolidate Changyou but recognize noncontrolling interest reflecting the shares held by public shareholders and Tao Wang (collectively, the shareholders other than Sohu). See Note 1- The Company and Basis of Presentation Basis of Consolidation and Note 9 - Noncontrolling Interest.

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Economic Interest

Because Tao Wang's 6,000,000 restricted shares are subject to forfeiture to Sohu until they become vested, those shares are treated as owned by Sohu, rather than as owned by Tao Wang, in the noncontrolling interest line items in Sohu's consolidated financial statements. As a result, Sohu is treated as holding approximately 74.4% of the economic interests in Changyou as of June 30, 2009. Accordingly, shareholders other than Sohu are treated as holding the remaining 25.6% of the economic interests. See Note 9 - Noncontrolling Interest.

Fully Diluted Earnings per Share

Prior to June 30, 2009, under Changyou's 2008 Share Incentive Plan, Changyou had granted 15,000,000 Class B ordinary shares and Class B restricted ordinary shares to Tao Wang through Prominence and 4,396,000 Class A and Class B restricted share units (setttable upon vesting in Class A ordinary shares and Class B ordinary shares, respectively) to its executive officers other than Tao Wang and to its key employees.

As of June 30, 2009, since 24,000 restricted share units were forfeited during the second quarter of 2009, the number of existing restricted share units decreased from 4,396,000 to 4,372,000.

Because no Class A ordinary shares or Class B ordinary shares will be issued with respect to these restricted share units until the restricted share units are vested, the unvested restricted share units are not included as outstanding shares of Changyou. Nevertheless, these restricted share units have a dilutive impact on Sohu's diluted earnings per share.

For the second quarter of 2009, in the calculation of Sohu's diluted earnings per share, Sohu's economic interests in Changyou decreased from 74.4% to 66.7%. This percentage of 66.7% was calculated under the treasury stock method in compliance with SFAS No.128, *Earnings per Share* (SFAS 128). Under the treasury stock method, all of Changyou's existing unvested restricted shares and unvested restricted share units were treated as vested and issued by Changyou. See Note 5 - Net Income Per Share.

Gain on Initial Public Offering of Changyou

As a result of the completion of Changyou's initial public offering on April 7, 2009, Sohu recognized in the shareholders' equity section of Sohu's consolidated balance sheets, a one-time gain of \$100.6 million to reflect the net proceeds Sohu received from the initial public offering and the incremental change in Sohu's economic interests in Changyou immediately before and immediately after the initial public offering, in accordance with SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (SFAS 160).

3. SEGMENT INFORMATION

Sohu Group operates in four principal segments: brand advertising, sponsored search, online game and wireless. Commencing in the first quarter of 2009, the chief operating decision maker (CODM) reviews additional information for the online game segment. Accordingly, based on the requirements of SFAS No. 131, *Disclosure about Segment of an Enterprise and Related Information* (SFAS 131), the Company has adjusted the online game segment operating performance measurement disclosures to include income from operations and main segment assets for online game. For the remaining segments, the operating performance measurements are unchanged. Consistent with prior periods, some items, such as share-based compensation expense, operating expenses, other income and expense, and income tax expense, are not reviewed by the CODM and these items are disclosed in the following segment information for reconciliation purposes only.

Also in accordance with SFAS No. 131, the Company restated the presentation of its segments for prior periods to conform to the current presentation, and it will restate all comparable periods hereafter.

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

	Three Months Ended June 30, 2009							
	Segments Other Than Online Game				Segments Other Than Online Game			
	Brand Advertising	Sponsored Search	Wireless	Others	Total	Online Game	Intercompany Eliminations	Consolidated
Revenues	\$ 49,184	\$ 1,769	\$ 14,951	\$ 148	\$ 66,052	\$ 66,596	\$ (5,563)	\$ 127,085
Segment cost of revenues	(13,804)	(2,262)	(8,279)	(232)	(24,577)	(3,853)	6	(28,424)
Segment gross profit (loss)	\$ 35,380	\$ (493)	\$ 6,672	\$ (84)	41,475	62,743	(5,557)	98,661
SBC (1) in cost of revenues					(265)	(90)		(355)
Gross profit					41,210	62,653	(5,557)	98,306
Operating expenses:								
Product development					(6,818)	(4,520)		(11,338)
Sales and marketing					(20,884)	(10,269)	5,557	(25,596)
General and administrative					(3,634)	(2,828)		(6,462)
Amortization of intangible assets					(127)	(1)		(128)
SBC (1) in operating expenses					(677)	(5,582)		(6,259)
Total operating expenses					(32,140)	(23,200)	5,557	(49,783)
Operating profit					9,070	39,453		48,523
Dividend income (2)					96,800		(96,800)	
Other income					62			62
Interest income and exchange difference					403	871		1,274
Income tax expense					(2,173)	(5,796)		(7,969)
Income from continuing operations					\$ 104,162	\$ 34,528	\$ (96,800)	\$ 41,890

Note (1): SBC stands for share-based compensation expense under SFAS 123(R).

Note (2): In the second quarter of 2009, Changyou declared a dividend distribution of \$96.8 million to Sohu Game. Both Changyou and Sohu Game are within the Sohu Group.

	Three Months Ended June 30, 2008							
	Segments Other Than Online Game				Segments Other Than Online Game			
	Brand Advertising	Sponsored Search	Wireless	Others	Total	Online Game	Intercompany Eliminations	Consolidated
Revenues	\$ 49,823	\$ 1,693	\$ 9,166	\$ 1,534	\$ 62,216	\$ 47,896	\$ (8,132)	\$ 101,980
Segment cost of revenues	(13,612)	(1,599)	(5,480)	(376)	(21,067)	(3,514)	14	(24,567)

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Segment gross profit	\$ 36,211	\$ 94	\$ 3,686	\$ 1,158	41,149	44,382	(8,118)	77,413
SBC (1) in cost of revenues					(303)	(5)		(308)
Gross profit					40,846	44,377	(8,118)	77,105
Operating expenses:								
Product development					(5,441)	(4,129)		(9,570)
Sales and marketing					(18,966)	(9,549)	7,335	(21,180)
General and administrative					(3,256)	(1,960)	783	(4,433)
Amortization of intangible assets					(199)			(199)
SBC (1) in operating expenses					(973)	(877)		(1,850)
Total operating expenses					(28,835)	(16,515)	8,118	(37,232)
Operating profit					12,011	27,862		39,873
Other expense					(287)	(288)		(575)
Interest income and exchange difference					1,316	164		1,480
Income tax (expense)/benefit					(4,462)	3,885		(577)
Income from continuing operations	\$	8,578	\$	31,623	\$		\$	40,201

Note (1): SBC stands for share-based compensation expense under SFAS 123(R).

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	Six Months Ended June 30, 2009								
	Segments Other Than Online Game					Segments Other Than Online Game			Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others	Online Game Total	Online Game	Intercompany Eliminations		
Revenues	\$ 96,303	\$ 3,331	\$ 28,329	\$ 265	\$ 128,228	\$ 128,203	\$ (13,608)	\$ 242,823	
Segment cost of revenues	(27,298)	(4,557)	(15,922)	(718)	(48,495)	(7,286)	11	(55,770)	
Segment gross profit (loss)	\$ 69,005	\$ (1,226)	\$ 12,407	\$ (453)	79,733	120,917	(13,597)	187,053	
SBC (1) in cost of revenues					(504)	(98)		(602)	
Gross profit					79,229	120,819	(13,597)	186,451	
Operating expenses:									
Product development					(13,459)	(9,919)		(23,378)	
Sales and marketing					(34,633)	(21,101)	13,597	(42,137)	
General and administrative					(7,834)	(6,041)		(13,875)	
Amortization of intangible assets					(200)	(2)		(202)	
SBC (1) in operating expenses					(1,879)	(6,420)		(8,299)	
Total operating expenses					(58,005)	(43,483)	13,597	(87,891)	
Operating profit					21,224	77,336		98,560	
Dividend income (2)					96,800		(96,800)		
Other income/(expense)					64	(1)		63	
Interest income and exchange difference					849	1,547		2,396	
Income tax expense					(3,705)	(10,850)		(14,555)	
Income from continuing operations					\$ 115,232	\$ 68,032	\$ (96,800)	\$ 86,464	

Note (1): SBC stands for share-based compensation expense under SFAS 123(R).

Note (2): In the second quarter of 2009, Changyou declared a dividend distribution of \$96.8 million to Sohu Game. Both Changyou and Sohu Game are within the Sohu Group.

	Six Months Ended June 30, 2008								
	Segments Other Than Online Game					Segments Other Than Online Game			Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others	Online Game Total	Online Game	Intercompany Eliminations		
Revenues	\$ 90,334	\$ 3,307	\$ 17,759	\$ 2,040	\$ 113,440	\$ 88,851	\$ (15,488)	\$ 186,803	
Segment cost of revenues	(24,555)	(3,113)	(9,411)	(755)	(37,834)	(6,738)	35	(44,537)	