

SOHU COM INC  
Form 10-Q  
November 09, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED September 30, 2005

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

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**Sohu.com Inc.**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

**Level 12, Vision International Center**  
**No. 1 Unit Zhongguancun East Road, Haidian District**  
**Beijing 100084**  
**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)**

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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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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:

<u>Class</u>	<u>Outstanding at October 31, 2005</u>
<b>Common stock, \$.001 par value</b>	<b>36,608,994</b>

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements (unaudited)****SOHU.COM INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)****(In thousands)**

	As of	
	September 30,	December 31,
	2005	2004
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 118,476	\$ 122,384
Accounts receivable, net (including \$0 and \$199 from related parties, respectively)	23,281	19,901
Prepaid and other current assets	4,206	4,894
Current portion of long-term investments in marketable debt securities		4,494
	<u>145,963</u>	<u>151,673</u>
Total current assets	145,963	151,673
Long-term investments in marketable debt securities	14,071	14,444
Investment in an associate	1,086	995
Fixed assets, net	15,752	12,175
Goodwill	50,918	44,502
Intangible assets, net	6,992	7,503
Other assets, net	6,255	3,475
	<u>\$ 241,037</u>	<u>\$ 234,767</u>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable (including \$134 and \$110 to related parties, respectively)	\$ 1,629	\$ 2,273
Accrued liabilities	29,114	33,995
	<u>30,743</u>	<u>36,268</u>
Total current liabilities	30,743	36,268
Zero coupon convertible senior notes	90,000	90,000
	<u>120,743</u>	<u>126,268</u>
Total liabilities	120,743	126,268
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock: \$0.001 par value per share (75,400 authorized, 36,568 and 36,537 shares issued and outstanding, respectively)	40	38
Additional paid-in capital	148,241	145,481
Treasury stock (3,446 shares and 2,561 shares, respectively)	(39,686)	(25,839)
Deferred compensation		(2)

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Accumulated other comprehensive income	2,048	14
Retained earnings/(accumulated deficit)	9,651	(11,193)
	<u>          </u>	<u>          </u>
Total shareholders' equity	120,294	108,499
	<u>          </u>	<u>          </u>
	\$ 241,037	\$ 234,767
	<u>          </u>	<u>          </u>

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)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>				
<b>Advertising:</b>				
Brand advertising (including \$0, \$104, \$0 and \$349 from related parties, respectively)	\$ 15,618	\$ 12,932	\$ 41,601	\$ 32,875
Sponsored search	3,172	2,541	9,008	6,994
<b>Subtotal of advertising revenues</b>	<b>18,790</b>	<b>15,473</b>	<b>50,609</b>	<b>39,869</b>
<b>Non-advertising:</b>				
Wireless	6,762	8,145	19,081	31,706
E-commerce	879	1,486	2,985	4,175
Others	1,847	836	5,207	3,392
<b>Subtotal of non-advertising revenues</b>	<b>9,488</b>	<b>10,467</b>	<b>27,273</b>	<b>39,273</b>
<b>Total revenues</b>	<b>28,278</b>	<b>25,940</b>	<b>77,882</b>	<b>79,142</b>
<b>Cost of revenues:</b>				
<b>Advertising:</b>				
Brand advertising	4,122	2,987	10,339	8,160
Sponsored search	813	339	1,993	884
<b>Subtotal of advertising cost of revenues</b>	<b>4,935</b>	<b>3,326</b>	<b>12,332</b>	<b>9,044</b>
<b>Non-advertising:</b>				
Wireless	3,353	3,147	8,546	11,702
E-commerce (including \$51, \$28, \$115 and \$94 from related parties, respectively)	1,014	1,468	3,052	4,138
Others (including \$326, \$0, \$906 and \$0 from related parties, respectively)	626	446	1,974	1,362
<b>Subtotal of non-advertising cost of revenues</b>	<b>4,993</b>	<b>5,061</b>	<b>13,572</b>	<b>17,202</b>
<b>Total cost of revenues</b>	<b>9,928</b>	<b>8,387</b>	<b>25,904</b>	<b>26,246</b>
<b>Gross profit</b>	<b>18,350</b>	<b>17,553</b>	<b>51,978</b>	<b>52,896</b>
<b>Operating expenses:</b>				
Product development	3,439	2,462	10,175	6,433
Sales and marketing	4,615	4,600	13,618	11,982
General and administrative	2,813	2,210	7,712	5,534
Amortization of intangibles	509	368	1,439	905
<b>Total operating expenses</b>	<b>11,376</b>	<b>9,640</b>	<b>32,944</b>	<b>24,854</b>

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Operating profit	6,974	7,913	19,034	28,042
Other income / (expense)	358	(190)	96	(594)
Interest income	617	641	1,745	1,849
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Income before income tax expense	7,949	8,364	20,875	29,297
Income tax expense	81	(38)	(31)	(162)
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Net income	\$ 8,030	\$ 8,326	\$ 20,844	\$ 29,135
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Basic net income per share	\$ 0.22	\$ 0.23	\$ 0.58	\$ 0.80
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Shares used in computing basic net income per share	36,417	36,392	36,202	36,332
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Diluted net income per share	\$ 0.21	\$ 0.21	\$ 0.54	\$ 0.73
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>
Shares used in computing diluted net income per share	39,750	40,644	39,760	40,772
	<u>        </u>	<u>        </u>	<u>        </u>	<u>        </u>

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)**

**Nine Months Ended**

**September 30,**

**2005**

**2004**

Cash flows from operating activities: