SOHU COM INC

FORM 10-Q
(Quarterly Report)

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

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	**98-0204667**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(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, 2016
Common stock, $.001 par value	**38,732,891**

SOHU.COM INC.

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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, 2015	September 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,245,205	$ 1,092,085
Restricted time deposits	227,285	0
Short-term investments	174,515	264,109
Accounts receivable, net	273,617	204,748
Assets held for sale	0	101,786
Prepaid and other current assets (including $15,820 and $29,852, respectively, due from a related party as of December 31, 2015 and September 30, 2016)	158,890	274,701
Total current assets	2,079,512	1,937,429
Long-term investments, net	62,093	68,861
Restricted time deposits	136,694	9,270
Fixed assets, net	508,692	525,899
Intangible assets, net	55,415	33,593
Goodwill	154,219	69,688
Prepaid non-current assets	6,254	5,167
Other assets	39,315	25,546
Total assets	$ 3,042,194	$ 2,675,453
LIABILITIES		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities (“VIEs”) without recourse to the Company of $23,757 and $11,505, respectively, as of December 31, 2015 and September 30, 2016)	$ 129,025	$ 163,843
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of $79,012 and $84,379, respectively, as of December 31, 2015 and September 30, 2016)	309,657	335,046
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of $55,319 and $48,764, respectively, as of December 31, 2015 and September 30, 2016)	135,385	128,943
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of $11,357 and $10,377, respectively, as of December 31, 2015 and September 30, 2016)	99,631	84,783
Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of $21,424 and $9,435, respectively, as of December 31, 2015 and September 30, 2016)	67,480	38,764
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of $1,490 and $1,375, respectively, as of December 31, 2015 and September 30, 2016)	24,884	26,247
Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2015 and September 30, 2016)	344,500	0
Liabilities held for sale (including liabilities held for sale of consolidated VIEs without recourse to the Company of nil and $2,452, respectively, as of December 31, 2015 and September 30, 2016)	0	3,236
Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of $106,976 and $136,159, respectively, as of December 31, 2015 and September 30, 2016, and due to a related party of $13,005 and $29,608, respectively, as of December 31, 2015 and September 30, 2016)	154,017	198,171
Total current liabilities	1,264,579	979,033
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of $2,858 and nil as of December 31, 2015 and September 30, 2016)	4,600	17,272
Long-term taxes payable (including long-term taxes payable of consolidated VIEs without recourse to the Company of nil and $13,986 as of December 31, 2015 and September 30, 2016)	24,732	33,199
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of nil as of both December 31, 2015 and September 30, 2016)	17,531	14,037
Total long-term liabilities	46,863	64,508
Total liabilities	1,311,442	1,043,541
Commitments and contingencies		
SHAREHOLDERS’ EQUITY		
Sohu.com Inc. shareholders’ equity:		
Common stock: $0.001 par value per share (75,400 shares authorized; 38,653 shares and 38,733 shares, respectively, issued and outstanding as of December 31, 2015 and September 30, 2016)	$ 45	$ 45
Additional paid-in capital	798,357	823,921
Treasury stock (5,889 shares as of both December 31, 2015 and September 30, 2016)	(143,858)	(143,858)
Accumulated other comprehensive income	50,151	25,962
Retained earnings	536,327	378,203
Total Sohu.com Inc. shareholders’ equity	1,241,022	1,084,273
Noncontrolling interest	489,730	547,639
Total shareholders’ equity	1,730,752	1,631,912
Total liabilities and shareholders’ equity	$ 3,042,194	$ 2,675,453

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

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,	
	2015	2016	2015	2016
Revenues:				
Online advertising:				
Brand advertising (including revenues generated from a related party of nil for the three months ended both September 30, 2015 and 2016, and of nil and $862, respectively, for the nine months ended September 30, 2015 and 2016)	$151,517	$110,871	$ 436,187	$ 349,261
Search and search-related	147,938	150,667	388,270	444,633
Subtotal of online advertising revenues	299,455	261,538	824,457	793,894
Online games	152,501	98,553	509,845	300,309
Others	70,134	50,491	136,686	144,469
Total revenues	522,090	410,582	1,470,988	1,238,672
Cost of revenues:				
Online advertising:				
Brand advertising	91,163	102,137	295,562	281,427
Search and search-related	62,365	76,457	170,836	210,547
Subtotal of cost of online advertising revenues	153,528	178,594	466,398	491,974
Online games	34,635	23,719	128,049	75,232
Others	25,996	20,571	63,066	60,783
Total cost of revenues	214,159	222,884	657,513	627,989
Gross profit	307,931	187,698	813,475	610,683
Operating expenses:				
Product development	92,779	90,007	295,741	261,645
Sales and marketing (including expenses generated for a related party of nil for the three months ended both September 30, 2015 and 2016, and of nil and $216, respectively, for the nine months ended September 30, 2015 and 2016)	98,596	110,584	285,701	318,597
General and administrative	33,330	38,670	128,214	95,927
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	40,324	0	40,324	0
Total operating expenses	265,029	239,261	749,980	676,169
Operating profit /(loss)	42,902	(51,563)	63,495	(65,486)
Other income /(loss)	70,219	3,678	72,936	(16,971)
Net interest income	5,192	6,118	17,455	16,297
Exchange difference	4,322	702	3,452	3,546
Income /(loss) before income tax expense	122,635	(41,065)	157,338	(62,614)
Income tax expense	(29,461)	(974)	(57,280)	(15,272)
Net income/(loss)	93,174	(42,039)	100,058	(77,886)
Less: Net income attributable to the noncontrolling interest shareholders	42,142	32,775	107,345	80,238
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	11,911	0	11,911	0
Net income /(loss) attributable to Sohu.com Inc.	$ 39,121	$ (74,814)	$ (19,198)	$ (158,124)
Net income /(loss)	93,174	(42,039)	100,058	(77,886)
Foreign currency translation adjustments	(61,470)	(7,619)	(59,509)	(35,031)
Change in unrealized gain /(loss) for available-for-sale securities	(6,129)	(693)	4,695	(2,121)
Other comprehensive loss	(67,599)	(8,312)	(54,814)	(37,152)
Comprehensive income /(loss)	25,575	(50,351)	45,244	(115,038)
Less: Comprehensive income attributable to noncontrolling interest shareholders	23,215	29,724	89,065	67,275
Deemed dividend to noncontrolling Sogou Series A Preferred shareholders	11,911	0	11,911	0
Comprehensive loss attributable to Sohu.com Inc.	$ (9,551)	$ (80,075)	$ (55,732)	$ (182,313)
Basic net income /(loss) per share attributable to Sohu.com Inc.	$ 1.01	$ (1.93)	$ (0.50)	$ (4.09)
Shares used in computing basic net income loss per share attributable to Sohu.com Inc.	38,633	38,728	38,582	38,695
Diluted net income /(loss) per share attributable to Sohu.com Inc.	$ 1.00	$ (1.94)	$ (0.52)	$ (4.12)
Shares used in computing diluted net income /(loss) per share attributable to Sohu.com Inc.	38,665	38,728	38,582	38,695

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

SOHU.COM INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(In thousands)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2016
Cash flows from operating activities:		
Net income /(loss)	$ 100,058	$ (77,886)
Adjustments to reconcile net income /(loss) to net cash provided by operating activities:		
Amortization of intangible assets and purchased video content in prepaid expense	129,475	105,773
Depreciation	60,798	53,769
Goodwill impairment and impairment of intangible assets acquired as part of a business acquisition	40,324	0
Share-based compensation expense	28,465	16,147
Impairment of intangible assets	12,015	6,027
Investment loss from equity investments	3,791	1,006
Provision for allowance for doubtful accounts	1,676	4,341
Gain from sale of the 7Road business and certain Changyou subsidiaries	(55,139)	0
Gain from sale of an equity investment	(12,962)	0
Change in fair value of short-term investments	(1,050)	(7,732)
Others	2,163	(407)
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(67,284)	56,560
Prepaid and other assets	2,941	17,782
Accounts payable	7,150	17,507
Accrued liabilities and other short-term liabilities	66,636	64,720
Receipts in advance and deferred revenue	11,202	(2,792)
Taxes payable	17,592	(45,782)
Deferred tax	9,612	5,191
Net cash provided by operating activities	357,463	214,224
Cash flows from investing activities:		
Purchase of intangible and other assets	(106,613)	(134,513)
Purchase of fixed assets	(84,127)	(89,990)
Proceeds from financial instruments	542,372	295,591
Purchase of financial instruments	(618,960)	(282,000)
Purchase of long-term investments	(37,803)	(12,940)
Funds to /(Return of funds from) a third party	(20,033)	3,619
Matching loan to a related party	(13,086)	(18,115)
Consideration received from sale of the 7Road business and certain Changyou subsidiaries, net of cash in 7Road upon its disposition	183,114	0
Cash received related to restricted time deposits, net	30,840	225,462
Proceeds received from sale of an equity investment	11,938	0
Other cash proceeds related to investing activities	3,866	3,840
Net cash used in investing activities	(108,492)	(9,046)
Cash flows from financing activities:		
Matching loan from a related party	12,900	17,041
Issuance of common stock	2,124	3
Exercise of share-based awards in subsidiary	7	288
Repayments of loans from offshore banks	(25,500)	(344,500)
Repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders	(21,015)	0
Repurchase of Changyou American depositary shares (“ADSs”)	(14,517)	0
Other cash proceeds /(payments) related to financing activities	2,855	(423)
Net cash used in financing activities	(43,146)	(327,591)
Effect of exchange rate changes on cash and cash equivalents	(8,220)	(20,427)
Reclassification of cash and cash equivalents to assets held for sale	(66)	(10,280)
Net increase /(decrease) in cash and cash equivalents	197,539	(153,120)
Cash and cash equivalents at beginning of period	876,340	1,245,205
Cash and cash equivalents at end of period	$ 1,073,879	$ 1,092,085
Supplemental cash flow disclosures:		
Barter transactions	$ 1,411	$ 9,259
Supplemental schedule of non-cash investing activity:		
Consideration payable for an acquisition and an equity investment	10,722	0

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

SOHU.COM INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (unaudited)

Nine Months Ended September 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	2,126	1	2,125	0	0	0	0
Repurchase of Changyou ADSs	(14,517)	0	(9,982)	0	0	0	(4,535)
Share-based compensation expense	28,515	0	16,684	0	0	0	11,831
Settlement of share-based awards in subsidiary	357	0	33,649	0	0	0	(33,292)
Repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders, net of transaction expense	(21,329)	0	90,719	0	0	(11,911)	(100,137)
Purchase of noncontrolling interest in RaidCall	0	0	458	0	0	0	(458)
Noncontrolling interest recognized in domestic companies	277	0	0	0	0	0	277
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	100,058	0	0	0	0	(7,287)	107,345
Accumulated other comprehensive loss	(54,814)	0	0	0	(36,534)	0	(18,280)
Ending balance	$1,729,579	$ 45	$ 783,801	$(143,858)	$ 72,868	$566,727	$ 449,996

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)
Nine Months Ended September 30, 2016
(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	$1,730,752	$ 45	$ 798,357	$(143,858)	$ 50,151	$ 536,327	$ 489,730
Share-based compensation expense	16,145	0	5,095	0	0	0	11,050
Settlement of share-based awards in subsidiary	337	0	19,136	0	0	0	(18,799)
Contribution from noncontrolling interest shareholder	0	0	1,333	0	0	0	(1,333)
Disposal of noncontrolling interest	(238)	0	0	0	0	0	(238)
Other	(46)	0	0	0	0	0	(46)
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	(77,886)	0	0	0	0	(158,124)	80,238
Accumulated other comprehensive loss	(37,152)	0	0	0	(24,189)	0	(12,963)
Ending balance	$1,631,912	$ 45	$ 823,921	$(143,858)	$ 25,962	$ 378,203	$ 547,639

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

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 Tian Long Ba Bu ("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 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 search-related revenues; online games revenues; and other revenues. Online advertising and online games are the Group's core businesses.

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 is a leading online news and information provider in China. It provides users comprehensive content through www.sohu.com for PCs, the mobile phone application Sohu News APP and the mobile portal m.sohu.com;
- **Sohu Video.** Sohu Video is a leading online video content and 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 and services 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.

Other Business

Sohu also engages in the other business, which consists primarily of interactive broadcasting services, sub-licensing of purchased video content to third parties, paid subscription services, the filming business, and mobile-related services. Revenues generated by Sohu from the other business are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Sogou's Business

Search and Search-related Business

The search and search-related 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 its advertisers' promotional links and advertisements by leveraging traffic on Sogou Website Alliance members' Websites. The search and search-related business benefits from Sogou's collaboration with Tencent Holdings Limited (together with its subsidiaries, "Tencent"), which provides Sogou access to traffic and content generated from users of products and services provided by Tencent.

Revenues generated by the search and search-related business are classified as search and search-related revenues in the Sohu Group's consolidated statements of comprehensive income.

Other Business

Sogou also engages in other business primarily by 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 other business are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Changyou's Business

Changyou's business lines consist of the online game business, the platform channel business and other business.

Online Game Business

Changyou's online game business offers to game players (a) PC games, which are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local client-end game access software be installed on the computers used; (b) mobile games, which are played on mobile devices and require an Internet connection; and (c) Web games, which are online games that are played through a Web browser with no local game software installation requirements. Web games became a relatively insignificant part of Changyou's online games business following the sale of 7Road's operating company Shenzhen 7Road in August 2015. All of Changyou's games are operated under the item-based revenue model, meaning game players can play the games for free, but can choose to pay for virtual items, which are non-physical items that game players can purchase and use within a game, such as gems, pets, fashion items, magic medicine, riding animals, hierograms, skill books and fireworks. 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 game is TLBB, a PC based client-end game. For the three and nine months ended September 30, 2016, revenues from the PC game TLBB were $56.0 million and $162.9 million, respectively, accounting for approximately 57% and 54%, respectively, of Changyou's online game revenues, approximately 41% and 41%, respectively, of Changyou's total revenues and approximately 14% and 13%, respectively, of the Sohu Group's total revenues. For the three and nine months ended September 30, 2015, revenues from the PC game TLBB were $77.8 million and $244.9 million, respectively, accounting for approximately 51% and 48%, respectively, of Changyou's online game revenues, approximately 41% of Changyou's total revenues for both periods and approximately 15% and 17%, respectively, of the Sohu Group's total revenues.

Platform Channel Business

Changyou's platform channel business consists primarily of the operation of the 17173.com Website, the Dolphin Browser and RaidCall. The 17173.com Website, one of the leading game information portals in China, provides news, electronic forums, online videos and other information services on online games to game players. The Dolphin Browser is a gateway to a host of user activities on mobile devices, with the majority of its users based in Europe, Russia and Japan. RaidCall provides online music and entertainment services, primarily in Taiwan. During the three months ended September 30, 2016, Changyou management determined that the Dolphin Browser was unable to provide expected synergies with Changyou's platform business and therefore formed the intention to divest Changyou's 51% equity interest in MoboTap Inc., a Cayman Islands company (collectively with its subsidiaries and VIEs "MoboTap"), which is the mobile technology developer behind the Dolphin Browser. Therefore, the assets and liabilities of MoboTap were recognized as assets held for sale and liabilities held for sale, respectively, in the third quarter of 2016. Revenues generated by the 17173.com Website are classified as brand advertising revenues and revenues generated by the Dolphin Browser and RaidCall are classified as other revenues in the Group's consolidated statements of comprehensive income.

Other Business

Changyou also operates a cinema advertising business, which consists of Changyou's offering of pre-film cinema advertising slots for advertisements that are shown before the screening of a movie in a cinema theatre. Revenues generated by Changyou's cinema advertising business are classified as other 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 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.

Noncontrolling Interest Recognition

Noncontrolling interests are recognized to reflect the portion of the equity of subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholders. The primary 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 United States of America generally accepted accounting principles ("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, 2015.

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 nine months ended September 30, 2016 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. There are three segments in the Group, consisting of the Sohu segment, the Sogou segment, and the Changyou segment.

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

	Three Months Ended September 30, 2015				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	$172,902	$162,300	$ 188,875	$ (1,987)	$ 522,090
Segment cost of revenues	(99,742)	(66,035)	(48,821)	539	(214,059)
Segment gross profit	73,160	96,265	140,054	(1,448)	308,031
SBC (2) in cost of revenues	(184)	(12)	96	0	(100)
Gross profit	72,976	96,253	140,150	(1,448)	307,931
Operating expenses:					
Product development (3)	(23,708)	(31,573)	(40,178)	1,348	(94,111)
Sales and marketing (1)	(52,315)	(25,775)	(21,639)	1,599	(98,130)
General and administrative	(12,966)	(3,956)	(17,741)	(203)	(34,866)
Goodwill impairment and impairment of intangible assets acquired as part of a business acquisition	0	0	(40,324)	0	(40,324)
SBC (2) in operating expenses	(2,228)	1,262	3,368	0	2,402
Total operating expenses	(91,217)	(60,042)	(116,514)	2,744	(265,029)
Operating profit /(loss)	(18,241)	36,211	23,636	1,296	42,902
Other income (3) (4)	91,736	32	58,554	(80,103)	70,219
Net interest income	587	1,326	3,279	0	5,192
Exchange difference	1,360	627	2,335	0	4,322
Income before income tax expense	75,442	38,196	87,804	(78,807)	122,635
Income tax expense	(1,091)	(2,586)	(25,784)	0	(29,461)
Net income	$ 74,351	$ 35,610	$ 62,020	$ (78,807)	$ 93,174

Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou and Changyou segments.

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

Note (3): The elimination mainly consists of leasing income and expenses generated from a building that Sohu leases to Sogou.

Note (4): In the third quarter of 2015, Sogou purchased from Sohu 24.0 million Series A Preferred Shares of Sogou for $78.8 million. Sohu recognized $78.8 million in other income, which was eliminated in the Group’s consolidated statements of comprehensive income.

	Three Months Ended September 30, 2016				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	$ 109,560	$ 165,952	$ 135,862	$ (792)	$ 410,582
Segment cost of revenues	(102,772)	(78,788)	(41,071)	42	(222,589)
Segment gross profit	6,788	87,164	94,791	(750)	187,993
SBC (2) in cost of revenues	(266)	(3)	(26)	0	(295)
Gross profit	6,522	87,161	94,765	(750)	187,698
Operating expenses:					
Product development (3)	(25,043)	(34,496)	(27,410)	1,047	(85,902)
Sales and marketing (1)	(66,555)	(26,011)	(18,311)	1,045	(109,832)
General and administrative	(11,831)	(6,409)	(12,432)	20	(30,652)
SBC (2) in operating expenses	(5,509)	(190)	(7,176)	0	(12,875)
Total operating expenses	(108,938)	(67,106)	(65,329)	2,112	(239,261)
Operating profit /(loss)	(102,416)	20,055	29,436	1,362	(51,563)
Other income (3)	1,379	970	2,691	(1,362)	3,678
Net interest income /(expense)	(466)	705	5,879	0	6,118
Exchange difference	(297)	481	518	0	702
Income /(loss) before income tax benefit /(expense)	(101,800)	22,211	38,524	0	(41,065)
Income tax benefit /(expense)	635	(2,128)	519	0	(974)
Net income /(loss)	$(101,165)	$ 20,083	$ 39,043	$ 0	$ (42,039)

Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou and Changyou segments.

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

Note (3): The elimination mainly consists of leasing income and expenses generated from a building that Sohu leases to Sogou.

	Nine Months Ended September 30, 2015				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	$ 450,776	$ 426,099	$ 599,726	$ (5,613)	$ 1,470,988
Segment cost of revenues	(306,221)	(177,401)	(174,024)	1,091	(656,555)
Segment gross profit	144,555	248,698	425,702	(4,522)	814,433
SBC (2) in cost of revenues	(847)	(119)	8	0	(958)
Gross profit	143,708	248,579	425,710	(4,522)	813,475
Operating expenses:					
Product development (3)	(72,362)	(93,285)	(124,156)	3,740	(286,063)
Sales and marketing (1)	(148,241)	(64,718)	(76,365)	5,196	(284,128)
General and administrative	(44,551)	(10,873)	(56,076)	(459)	(111,959)
Goodwill impairment and impairment of intangible assets acquired as part of a business acquisition	0	0	(40,324)	0	(40,324)
SBC (2) in operating expenses	(14,371)	(5,681)	(7,539)	85	(27,506)
Total operating expenses	(279,525)	(174,557)	(304,460)	8,562	(749,980)
Operating profit /(loss)	(135,817)	74,022	121,250	4,040	63,495
Other income /(expense) (3) (4)	91,679	122	63,896	(82,761)	72,936
Net interest income	2,432	4,011	11,012	0	17,455
Exchange difference	1,124	337	1,991	0	3,452
Income /(loss) before income tax expense	(40,582)	78,492	198,149	(78,721)	157,338
Income tax expense	(5,642)	(5,900)	(45,738)	0	(57,280)
Net income /(loss)	$ (46,224)	$ 72,592	$ 152,411	$ (78,721)	$ 100,058

Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou and Changyou segments.

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

Note (3): The elimination mainly consists of leasing income and expenses generated from a building that Sohu leases to Sogou.

Note (4): In the third quarter of 2015, Sogou purchased from Sohu 24.0 million Series A Preferred Shares of Sogou for $78.8 million. Sohu recognized $78.8 million in other income, which was eliminated in the Group's consolidated statements of comprehensive income.

	Nine Months Ended September 30, 2016				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	$ 357,437	$ 488,829	$ 394,862	$ (2,456)	$ 1,238,672
Segment cost of revenues	(284,765)	(218,394)	(124,795)	259	(627,695)
Segment gross profit	72,672	270,435	270,067	(2,197)	610,977
SBC (2) in cost of revenues	(255)	(3)	(36)	0	(294)
Gross profit	72,417	270,432	270,031	(2,197)	610,683
Operating expenses:					
Product development (3)	(71,606)	(99,781)	(87,785)	3,328	(255,844)
Sales and marketing (1)	(194,171)	(82,618)	(43,921)	3,040	(317,670)
General and administrative	(36,914)	(13,972)	(35,985)	69	(86,802)
SBC (2) in operating expenses	(4,007)	(2,542)	(9,304)	0	(15,853)
Total operating expenses	(306,698)	(198,913)	(176,995)	6,437	(676,169)
Operating profit /(loss)	(234,281)	71,519	93,036	4,240	(65,486)
Other income /(expense) (3) (4)	3,832	(26,623)	10,060	(4,240)	(16,971)
Net interest income	112	4,233	11,952	0	16,297
Exchange difference	366	819	2,361	0	3,546
Income /(loss) before income tax benefit /(expense)	(229,971)	49,948	117,409	0	(62,614)
Income tax benefit /(expense)	1,505	(4,550)	(12,227)	0	(15,272)
Net income /(loss)	$(228,466)	$ 45,398	$ 105,182	$ 0	$ (77,886)

Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou and Changyou segments.

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

Note (3): The elimination mainly consists of leasing income and expenses generated from a building that Sohu leases to Sogou.

Note (4): In the second quarter of 2016, the Sohu Group recognized a one-time expense of $27.8 million that was related to a donation by Sogou to Tsinghua University related to setting up a joint research institute focusing on artificial intelligence technology.

	As of December 31, 2015				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	$ 430,804	$244,484	$ 569,917	$ 0	$ 1,245,205
Accounts receivable, net	176,759	28,986	67,959	(87)	273,617
Fixed assets, net	223,939	70,447	214,306	0	508,692
Total assets (1)	$1,356,263	$387,875	$1,779,506	$ (481,450)	$ 3,042,194

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.

	As of September 30, 2016				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	$ 231,035	$224,116	$ 636,934	$ 0	$ 1,092,085
Accounts receivable, net	121,828	33,344	49,661	(85)	204,748
Fixed assets, net	208,808	117,318	199,773	0	525,899
Total assets (1)	$1,335,854	$474,537	$1,707,259	$ (842,197)	$ 2,675,453

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 for the granting of share-based awards, including stock options, share options 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) stock 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, 13,000 Sohu stock options contractually granted on May 1, 2016, 2,400,000 Changyou share options converted from restricted share units on February 16, 2015, and 1,998,000 and 100,000 Changyou share options contractually granted on June 1, 2015 and July 28, 2016, respectively, 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. Under *ASC 718-10-25* , 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 was re-measured 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 September 30, 2016, 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 September 30, 2016, 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. Therefore the fair value of the awards is not determinable and cannot be accounted for. In accordance with *ASC 718-10-55* , the Company's 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 recognized compensation expense for these vested Sohu Video share-based awards and re-measured, and will re-measure, the compensation expense on each subsequent reporting date based on the then-current fair values of these vested awards until the grant date is established.

Share-based Compensation Expense Recognition

Share-based compensation expense was recognized in costs and expenses for the three and nine months ended September 30, 2015 and 2016, respectively, as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Share-based compensation expense	**2015**	**2016**	**2015**	**2016**
Cost of revenues	$ 99	$ 295	$ 957	$ 294
Product development expenses (1)	(1,331)	4,105	9,680	5,801
Sales and marketing expenses	466	752	1,573	927
General and administrative expenses (1)	(1,536)	8,018	16,255	9,125
	$(2,302)	$ 13,170	$28,465	$16,147

Share-based compensation expense was recognized for share awards of Sohu (excluding Sohu Video), Sogou, Changyou and Sohu Video as follows (in thousands):

Share-based compensation expense	Three Months Ended September 30, 2015	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2016
For Sohu (excluding Sohu Video) share-based awards	$ 2,294	$ 5,639	$15,031	$ 4,749
For Sogou share-based awards (1) (2)	(1,230)	180	5,706	2,505
For Changyou share-based awards (1)	(3,465)	7,202	7,529	9,340
For Sohu Video share-based awards (1)	99	149	199	(447)
	$(2,302)	$ 13,170	$28,465	$16,147

Note (1): The negative amount resulted from re-measured compensation expense based on the then-current fair value of the awards on each reporting date as well as a true-up of share-based compensation expense for forfeited share options and restricted share units for Sogou and Changyou share-based awards.

Note (2): Compensation expense for Sogou share-based awards 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.

There was no capitalized share-based compensation expense for the three and nine months ended September 30, 2015 and 2016.

4. Fair Value Measurements

Fair Value of Financial Instruments

The Sohu Group's financial instruments include cash equivalents, short-term investments, accounts receivable, assets held for sale, prepaid and other current assets, long-term investments (including available-for-sale equity securities), restricted time deposits, accounts payable, accrued liabilities, receipts in advance and deferred revenue, liabilities held for sale, other short-term liabilities and long-term accounts payable.

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.

Financial Instruments Measured at Fair Value

The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of December 31, 2015 (in thousands):

		Fair value measurements at reporting date using		
Items	As of December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 727,232	$ 0	$ 727,232	$ 0
Restricted time deposits	363,979	0	363,979	0
Short-term investments	174,515	0	174,515	0
Available-for-sale equity securities	14,301	14,301	0	0
Total	$ 1,280,027	$ 14,301	$ 1,265,726	$ 0

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The following table sets forth the financial instruments, measured at fair value by level within the fair value hierarchy, as of September 30, 2016 (in thousands):

Items	As of September 30, 2016	Fair value measurements at reporting date using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 769,895	$ 0	$ 769,895	$ 0
Short-term investments	264,109	0	264,109	0
Available-for-sale equity securities	12,180	12,180	0	0
Restricted time deposits	9,270	0	9,270	0
Total	$ 1,055,454	$ 12,180	$ 1,043,274	$ 0

Cash Equivalents

The Sohu Group's cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash. 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.

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 September 30, 2016, the Sohu Group's investment in financial instruments was $264.1 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 nine months ended September 30, 2016, the Sohu Group recorded in the consolidated statements of comprehensive income changes in the fair value of short-term investments in the amounts of $2.8 million and $5.3 million, respectively. For the three and nine months ended September 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 $3.0 million and $6.8 million, 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 September 30, 2016, the fair value of the Keyeast available-for-sale equity securities held by Sohu was $12.2 million. An unrealized loss representing the change in fair value of $2.9 million in the aggregate was recorded as accumulated other comprehensive income /(loss) in the Sohu Group's consolidated balance sheets.

Assets and Liabilities Held for Sale

During the three months ended September 30, 2016, Changyou management determined that the Dolphin Browser was unable to provide expected synergies with Changyou's platform business and therefore formed the intention to divest Changyou's 51% equity interest in MoboTap, which is the mobile technology developer behind the Dolphin Browser. Therefore, the assets and liabilities attributable to MoboTap 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 September 30, 2016. Details of the aggregate assets and liabilities at September 30, 2016 are as follows (in thousands):

	As of September 30, 2016
Cash and cash equivalents	$ 10,280
Prepaid and other current assets	2,579
Goodwill	83,470
Intangible assets	5,457
Assets held for sale	**$ 101,786**
Other liabilities	3,236
Liabilities held for sale	**$ 3,236**

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 was not subject to any additional potential payments other than the restricted time deposit amounts, and believes that the fair value of its guarantee liability was immaterial.

Changyou Loans from Offshore Banks, Secured by Time Deposits

Commencing in 2012, Changyou drew down loans from offshore branches of certain banks, which 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.

In the first quarter of 2016, Changyou had repaid all of the remaining bank loans of $344.5 million, and restricted time deposits of $354.7 million that secured these loans had been released. For the three and nine months ended September 30, 2016, interest income from the restricted time deposits securing the loans was nil and $0.7 million, respectively, and interest expense on the bank loans was nil and $0.6 million, respectively. For the three and nine months ended September 30, 2015, interest income from the restricted time deposits securing the loans was $3.0 million and $10.2 million, respectively, and interest expense on the loans was $1.8 million and $5.3 million, respectively.

Other Financial Instruments

The fair values of other financial instruments are estimated for disclosure purposes as follows:

Long-term Investments

Long-term Investment in SoEasy

Under an agreement between Sohu and SoEasy Internet Finance Group Limited ("SoEasy") entered into in August 2014, Sohu invested $4.8 million and $16.3 million in SoEasy on August 2014 and April 2015, respectively. In February 2016, Sohu invested an additional $10.5 million in SoEasy. Sohu accounted for its investments in SoEasy under long-term investments. These investments include both preferred shares and common shares. Sohu accounted for its investment in SoEasy's preferred shares under the cost method, since they were not considered to be common shares in substance and had no readily determinable fair value. Sohu accounted for its investment in SoEasy's common shares under the equity method, since Sohu can exercise significant influence but does not own a majority of SoEasy's equity capital or control SoEasy. As of September 30, 2016, the carrying value of Sohu's investment in SoEasy was $25.0 million.

Long-term Investment in Zhihu

In September 2015, Sogou paid $12.0 million in cash for approximately 3% of the equity capital of Zhihu Technology Limited ("Zhihu"), a company that engages primarily in the business of operating an online question and answer-based knowledge and information-sharing platform. Sogou accounted for the investment in Zhihu using the cost method, since Sogou does not have significant influence over Zhihu.

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 and other short-term liabilities are financial liabilities with carrying values that approximate fair value due to their short-term nature. For 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 2 of fair value measurements.

Long-term Payables

Long-term accounts payable 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, 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 2 of fair value measurements.

5. Goodwill

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

	Sohu	Sogou	Changyou	Total
Balance as of December 31, 2015				
Goodwill	$ 72,980	5,945	181,529	260,454
Accumulated impairment losses	(35,788)	0	(70,447)	(106,235)
	$ 37,192	$5,945	$111,082	$ 154,219
Transactions in 2016				
Transferred to assets held for sale	0	0	(83,470)	(83,470)
Foreign currency translation adjustment	(418)	(164)	(479)	(1,061)
Balance as of September 30, 2016	$ 36,774	$5,781	$ 27,133	$ 69,688
Balance as of September 30, 2016				
Goodwill	$ 72,562	$5,781	$ 97,580	$ 175,923
Accumulated impairment losses	(35,788)	0	(70,447)	(106,235)
	$ 36,774	$5,781	$ 27,133	$ 69,688

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 significant penalties or interest associated with tax positions for the three and nine months ended September 30, 2016, nor did the Group have any significant unrecognized uncertain tax positions for the three and nine months ended September 30, 2016.

Applicable Income Tax Rate

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%, but need to re-apply every three years. During this three-year period, an HNTE must conduct an annual qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HTNE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% CIT rate. 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" ("KNSE") can enjoy a further reduced preferential income tax rate of 10%. Enterprises must perform a self-assessment each year to ensure they meet the relevant criteria for qualification as Software Enterprises and/or KNSEs and file required documents with the tax authorities before using the preferential CIT rates. These enterprises will be subject to authorities' assessment each year after as to whether they are entitled to use the relevant preferential CIT treatments. If at any time during the preferential tax treatment years an enterprise uses the preferential CIT rates but fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise's Software Enterprise/KNSE status.

Principal Entities Qualified as HNTEs

As of September 30, 2016, 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 is qualified as an HNTE for 2016 and 2017, and will need to re-apply for HNTE qualification in 2018.
- 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"). These three companies are each qualified as HNTEs for 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 is qualified as an HNTE for 2016 and 2017, and will need to re-apply for HNTE qualification in 2018.
- Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology"). Sogou Technology is qualified as an HNTE for 2016, and will need to re-apply for HNTE qualification in 2017.

For Changyou's Business

- Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame") and Beijing Gamease Age Digital Technology Co., Ltd. ("Gamease"). AmazGame and Gamease are each qualified as HNTEs for 2016, and will need to re-apply for HNTE qualification in 2017.

Principal Entities Qualified as Software Enterprises

For Sohu's Business

- Beijing Sohu New Momentum Information Technology Co., Ltd. ("Sohu New Momentum"). In 2016, Sohu New Momentum is in the first of three years in which it is entitled to a 50% reduction to a rate of 12.5% as a Software Enterprise.

For Sogou's Business

- Sogou Technology recently filed documents for qualification as a KNSE for 2015 pursuant to new requirements for obtaining such qualification that were issued on May 4, 2016. As of the date of this report Sogou Technology had not received a response to the filing.
- Beijing Sogou Network Technology Co., Ltd ("Sogou Network") recently filed documents for qualification as a Software Enterprise for 2015 pursuant to new requirements for obtaining such qualification that were issued on May 4, 2016. As of the date of this report Sogou Network had not received a response to the filing.

For Changyou's Business

- AmazGame. In 2013 and 2014, AmazGame was qualified as a KNSE and enjoyed a preferential income tax rate of 10%, and recently received confirmation that it was qualified as a KNSE for 2015.
- Beijing Changyou Gamespace Software Technology Co., Ltd. ("Gamespace"). In 2016, Gamespace is in the third of 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 management determined to cause one of its PRC subsidiaries to declare and distribute a cash dividend of all of its stand-alone 2012 earnings and half of its stand-alone subsequent years' earnings to its direct overseas parent company, Changyou.com (HK) Limited ("Changyou HK"). As of September 30, 2016, Changyou had accrued deferred tax liabilities in the amount of $26.2 million for PRC withholding tax.

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.

PRC Value-Added Tax

On May 1, 2016, the transition from the imposition of PRC business tax ("Business Tax") to the imposition of value-added tax ("VAT") was expanded to all industries in China, and as a result all of the Sohu Group's revenues have been subject to VAT since that date. To record VAT payable, the Group adopted the net presentation method, which presents the difference between the output VAT (at a rate of 6%) and the available input VAT amount (at the rate applicable to the supplier).

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 portions of its U.S. taxable income, such as Subpart F income or a dividend, are determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may be able to claim foreign tax credits to offset its U.S. income tax liabilities. Any remaining liabilities are accrued in the Company's consolidated statements of comprehensive income and estimated tax payments are made when required by U.S. law.

Uncertain Tax Positions

The Group is subject to various taxes in different jurisdictions, primarily the U.S. 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.

7. Commitments and Contingencies

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2016 (in thousands):

As of September 30, 2016	
Purchase of content and services – video	$196,173
Purchase of cinema advertisement slot rights	109,550
Purchase of bandwidth	57,881
Operating lease obligations	25,692
Expenditures for operating rights for licensed games with technological feasibility - PC games	15,750
Purchase of content and services – others	9,884
Expenditures for operating rights for licensed games with technological feasibility - mobile games	3,866
Purchase of fixed assets	2,261
Expenditures for titles in game development	1,035
Fees for operating rights for licensed games in development – mobile games	589
Others	3,819
Total	$426,500

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 search-related, online game, and other 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. 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. Certain risks related to PRC law that could affect the Sohu Group's VIE structure are discussed in Note 8 - 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 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. 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 September 30, 2016, the aggregate amount of these loans was $9.3 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 September 30, 2016, the registered capital and PRC statutory reserves of the consolidated VIEs totaled $60.2 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 and Subsidiaries of Principal VIEs

For Sohu's Business

- High Century

  Beijing Century High Tech Investment Co., Ltd. ("High Century") was incorporated in 2001. As of September 30, 2016, 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.

- Heng Da Yi Tong

  Beijing Heng Da Yi Tong Information Technology Co., Ltd. ("Heng Da Yi Tong ") was incorporated in 2002. As of September 30, 2016, 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.

- Sohu Internet

  Sohu Internet was incorporated in 2003. As of September 30, 2016, the registered capital of Sohu Internet was $1.6 million and High Century held a 100% interest in this entity.

- Donglin

  Beijing Sohu Donglin Advertising Co., Ltd. ("Donglin") was incorporated in 2010. As of September 30, 2016, the registered capital of Donglin was $1.5 million and Sohu Internet held a 100% interest in this entity.

- Tianjin Jinhu

  Tianjin Jinhu Culture Development Co., Ltd. ("Tianjin Jinhu") was incorporated in 2011. As of September 30, 2016, the registered capital of Tianjin Jinhu was $0.5 million and Ye Deng and Xuemei Zhang each held a 50% interest in this entity. In October, 2016, Ye Deng transferred its 50% equity interest in Tianjin Jinhu to Xiufeng Deng. As of the date of this report, Xiufeng Deng and Xuemei Zhang each held a 50% interest in this entity.

- Guangzhou Qianjun

  Guangzhou Qianjun was acquired in November 2014. As of September 30, 2016, the registered capital of Guangzhou Qianjun was $3.3 million and Tianjin Jinhu held a 100% interest in this entity.

- Focus Interactive

  Beijing Focus Interactive Information Service Co., Ltd. ("Focus Interactive") was incorporated in July 2014. As of September 30, 2016, the registered capital of Focus Interactive was $1.6 million and Heng Da Yi Tong held 100% of the equity interests in this entity.

For Sogou's Business

- Sogou Information

  Sogou Information was incorporated in 2005. As of September 30, 2016, 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. As of September 30, 2016, the registered capital of Gamease was $1.3 million and High Century held a 100% interest in this entity.

- Guanyou Gamespace

  Beijing Guanyou Gamespace Digital Technology Co., Ltd. ("Guanyou Gamespace") was incorporated in 2010. As of September 30, 2016, the registered capital of Guanyou Gamespace was $1.5 million and Beijing Changyou Star Digital Technology Co., Ltd ("Changyou Star") held a 100% interest in this entity.

- Shanghai ICE

  Shanghai ICE Information Technology Co., Ltd. ("Shanghai ICE") was acquired by Changyou in 2010. As of September 30, 2016, the registered capital of Shanghai ICE was $1.2 million and Gamease held a 100% interest in this entity.

- Wuhan Baina Information

  Baina (Wuhan) Information Technology Co., Ltd. ("Wuhan Baina Information") was acquired by Gamease in July 2014. As of September 30, 2016, the registered capital of Wuhan Baina Information was $3.0 million and Changyou Star and Yongzhi Yang held 60% and 40% interests, respectively, in this entity.

Financial Information

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

	As of	
	December 31, 2015	September 30, 2016
ASSETS:		
Cash and cash equivalents	$ 131,270	$ 141,830
Accounts receivable, net	135,925	92,071
Prepaid and other current assets	101,951	93,237
Assets held for sale	0	12,062
Intercompany receivables due from the Company's subsidiaries	140,396	221,842
Total current assets	509,542	561,042
Long-term investments, net	15,960	15,189
Fixed assets, net	7,362	5,176
Intangible assets, net	18,266	14,977
Goodwill	36,351	35,838
Other non-current assets	12,057	6,499
Total assets	$ 599,538	$ 638,721
LIABILITIES:		
Accounts payable	$ 23,757	$ 11,505
Accrued liabilities	79,012	84,379
Receipts in advance and deferred revenue	55,319	48,764
Liabilities held for sale	0	2,452
Other current liabilities	141,247	157,346
Intercompany payables due to the Company's subsidiaries	175,178	182,537
Total current liabilities	474,513	486,983
Long-term accounts payable	2,858	0
Long-term taxes payable	0	13,986
Intercompany payables due to the Company's subsidiaries	21,717	20,420
Total liabilities	$ 499,088	$ 521,389

	Three months ended September 30,		Nine months ended September 30,	
	2015	2016	2015	2016
Net revenue	$ 309,866	$ 228,599	$ 926,460	$ 675,281
Net income/(loss)	$ (45,863)	$ 5,338	$ (63,402)	$ 20,854

	Nine months ended September 30,	
	2015	2016
Net cash provided by operating activities	$ 17,450	$ 20,306
Net cash provided by /(used in) investing activities	(11,182)	1,061
Net cash provided by financing activities	$ 2,286	$ 0

Summary of Significant Agreements Currently in Effect

Agreements Between Subsidiaries, Consolidated VIEs and Nominee Shareholders

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

Loan and share pledge agreement between Sohu Focus (HK) Limited (“Focus HK”) and the shareholders of Heng Da Yi Tong: The agreement provides for loans to the shareholders of Heng Da Yi Tong for them to make contributions to the registered capital of Heng Da Yi Tong in exchange for the equity interests in Heng Da Yi Tong, and the shareholders pledge those equity interests to Focus HK as security for the loans. The agreement includes powers of attorney that give Focus HK the power to appoint nominees to act on behalf of the shareholders of Heng Da Yi Tong in connection with all actions to be taken by Heng Da Yi Tong. Pursuant to the agreement, the shareholders executed in blank transfers of their equity interests in Heng Da Yi Tong, which are held by the Sohu Group’s legal department and may be completed and effected at Focus HK’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.

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 Fox Information Technology (Tianjin) Limited (“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 sole shareholder of Gamease and between Gamespace and the sole shareholder 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 100% of the equity interests in Gamease and Guanyou Gamespace. 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. 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. If the shareholders breach their obligations under any VIE-related agreements (Gamease's or Guanyou Gamespace's breach of any of its obligations under the various applicable VIE-related agreements will be treated as its shareholder's breach of its obligations), including the equity pledge agreements, AmazGame and Gamespace are entitled to exercise their rights as the beneficiaries under the applicable equity pledge agreements, including all rights the respective shareholders have as shareholders of Gamease or Guanyou Gamespace.

Equity interest purchase right agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right, exercisable at any time if and when it is 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 in Gamease and Guanyou Gamespace at a purchase price equal to their initial contributions to the registered capital of Gamease and Guanyou Gamespace.

Powers of attorney executed by the sole shareholder of Gamease in favor of AmazGame and by the sole shareholder of Guanyou Gamespace in favor of Gamespace, with a term of 10 years. These powers of attorney give the respective boards of directors of 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.

Business operation agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. These agreements set forth the right of AmazGame and Gamespace to control the actions of Gamease and Guanyou Gamespace, as the case may be, and the respective shareholders of Gamease and Guanyou Gamespace. Each agreement has a term of 10 years.

Share pledge agreement among Baina Zhiyuan (Beijing) Technology Co., Ltd. ("Beijing Baina Technology"), Wuhan Baina Information and the shareholders of Wuhan Baina Information, which are Gamease and Yongzhi Yang, pursuant to which the shareholders pledged to Beijing Baina Technology their equity interests in Wuhan Baina Information to secure the performance of their obligations and Wuhan Baina Information's obligations under the various VIE-related agreements. If the shareholders breach their obligations under any VIE-related agreements (Wuhan Baina Information's breach of any of its obligations under the various VIE-related agreements will be treated as the shareholders' breach of their obligations), including the share pledge agreement, Beijing Baina Technology is entitled to exercise its rights as the beneficiary under the share pledge agreement, including all rights of the shareholders as shareholders of Wuhan Baina Information.

Call option agreement among Beijing Baina Technology, Wuhan Baina Information, Changyou Star and Yongzhi Yang. This agreement 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 Changyou Star 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 lower of RMB1.00 (approximately $0.15) or the lowest purchase price permissible under PRC law.

Business Operation Agreement among Beijing Baina Technology, Wuhan Baina Information, Changyou Star and Yongzhi Yang. This agreement grants Beijing Baina Technology effective control of Wuhan Baina Information.

Business Arrangements Between Subsidiaries and Consolidated VIEs

Exclusive technology consulting and service agreement between Sohu Era and Sohu Internet. Pursuant to this agreement Sohu Era has the exclusive right to provide technical consultation and other related services to Sohu Internet, in exchange for a percentage of the gross revenue of Sohu Internet. The agreement has an initial term of two years, and is renewable at the request of Sohu Era.

Business cooperation agreement between Sogou Technology and Sogou Information. Pursuant to this agreement, Sogou Information provides Internet information services to Sogou Technology's customers in exchange for a fee payable to Sogou Information. The agreement has a term of 10 years, and is renewable at the request of Sogou Technology.

Exclusive technology consulting and service agreement between Sogou Technology and Sogou Information. Pursuant to this agreement Sogou Technology has the exclusive right to provide technical consultation and other related services to Sogou Information in exchange for a fee. The agreement has a term of 10 years and is renewable at the request of Sogou Technology.

Exclusive technology consulting and service agreement between Video Tianjin and Tianjin Jinhu. Pursuant to this agreement Video Tianjin has the exclusive right to provide technical consultation and other related services to Tianjin Jinhu in exchange for a fee. The agreement has a term of 10 years and is renewable at the request of Video Tianjin.

Technology support and utilization agreements between AmazGame and Gamease and between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the exclusive right to provide certain product development and application services and technology support to Gamease and Guanyou Gamespace, respectively, for a fee equal to a predetermined percentage, subject to adjustment by AmazGame or Gamespace at any time, of Gamease's and Guanyou Gamespace's respective revenues. Each agreement terminates only when AmazGame or Gamespace is dissolved.

Services and maintenance agreements between AmazGame and Gamease between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace, respectively, provide marketing, staffing, business operation and maintenance services to Gamease and Guanyou Gamespace, respectively, in exchange for a fee equal to the cost of providing such services plus a predetermined margin. Each agreement terminates only when AmazGame or Gamespace, as the case may be, is dissolved.

Exclusive Services agreement between Beijing Baina Technology and Wuhan Baina Information. Beijing Baina Technology agrees to provide Wuhan Baina Information with technical services, business consulting, capital equipment lease, market consulting, integration of systems, research and development of products and maintenance of systems. Service fees are to be determined with reference to the specific services provided, based on a transfer pricing analysis.

Certain of the contractual arrangements described above between the VIEs and the related wholly-owned subsidiaries of the Sohu Group are silent regarding renewals. However, because the VIEs are controlled by the Sohu Group through powers of attorney granted to the Sohu Group by the shareholders of the VIEs, the contractual arrangements can be, and are expected to be, renewed at the subsidiaries' election.

VIE-Related Risks

It is possible that the Sohu Group's operation of certain of its operations and businesses through VIEs could be found by PRC authorities to be in violation of PRC law and regulations prohibiting or restricting foreign ownership of companies that engage in such operations and businesses. While the Sohu Group's management considers the possibility of such a finding by PRC regulatory authorities under current law and regulations to be remote, on January 19, 2015, the Ministry of Commerce of the PRC, or (the "MOFCOM") released on its Website for public comment a proposed PRC law (the "Draft FIE Law") that appears to include VIEs within the scope of entities that could be considered to be foreign invested enterprises (or "FIEs") that would be subject to restrictions under existing PRC law on foreign investment in certain categories of industry. Specifically, the Draft FIE Law introduces the concept of "actual control" for determining whether an entity is considered to be an FIE. In addition to control through direct or indirect ownership or equity, the Draft FIE Law includes control through contractual arrangements within the definition of "actual control." If the Draft FIE Law is passed by the People's Congress of the PRC and goes into effect in its current form, these provisions regarding control through contractual arrangements could be construed to reach the Sohu Group's VIE arrangements, and as a result the Sohu Group's VIEs could become explicitly subject to the current restrictions on foreign investment in certain categories of industry. The Draft FIE Law includes provisions that would exempt from the definition of foreign invested enterprises entities where the ultimate controlling shareholders are either entities organized under PRC law or individuals who are PRC citizens. The Draft FIE Law is silent as to what type of enforcement action might be taken against existing VIEs that operate in restricted or prohibited industries and are not controlled by entities organized under PRC law or individuals who are PRC citizens. If a finding were made by PRC authorities, under existing law and regulations or under the Draft FIE Law if it becomes effective, that the Sohu Group's operation of certain of its operations and businesses through VIEs is prohibited, regulatory authorities with jurisdiction over the licensing and operation of such operations and businesses would have broad discretion in dealing with such a violation, including levying fines, confiscating the Sohu Group's income, revoking the business or operating licenses of the affected businesses, requiring the Sohu Group to restructure its ownership structure or operations, or requiring the Sohu Group to discontinue all or any portion of its operations. Any of these actions could cause significant disruption to the Sohu Group's business operations, and have a severe adverse impact on the Sohu Group's cash flows, financial position and operating performance.

In addition, it is possible that the contracts among the Sohu Group, the Sohu Group's VIEs and shareholders of its VIEs would not be enforceable in China if PRC government authorities or courts were to find that such contracts contravene PRC law and regulations or are otherwise not enforceable for public policy reasons. In the event that the Sohu Group was unable to enforce these contractual arrangements, the Sohu Group would not be able to exert effective control over the affected VIEs. Consequently, such VIE's results of operations, assets and liabilities would not be included in the Sohu Group's consolidated financial statements. If such were the case, the Sohu Group's cash flows, financial position and operating performance would be severely adversely affected. The Sohu Group's contractual arrangements with respect to its consolidated VIEs are in place. The Sohu Group's management believes that such contracts are enforceable, and considers the possibility remote that PRC regulatory authorities with jurisdiction over the Sohu Group's operations and contractual relationships would find the contracts to be unenforceable.

The Sohu Group's operations and businesses rely on the operations and businesses of its VIEs, which hold certain recognized and unrecognized revenue-producing assets. The recognized revenue-producing assets include goodwill and intangible assets acquired through business acquisitions. Goodwill primarily represents the expected synergies from combining an acquired business with the Sohu Group. Intangible assets acquired through business acquisitions mainly consist of customer relationships, non-compete agreements, user bases, copyrights, trademarks and developed technologies. Unrecognized revenue-producing assets mainly consist of licenses and intellectual property. Licenses include operations licenses, such as Internet information service licenses and licenses for providing content. Intellectual property developed by the Sohu Group mainly consists of patents, copyrights, trademarks, and domain names. The Sohu Group's operations and businesses may be adversely impacted if the Sohu Group loses the ability to use and enjoy assets held by these VIEs.

9. Sohu.com Inc. Shareholders' Equity

Takeover Defense

Sohu intends to adopt appropriate defensive measures in the future on a case by case basis as and to the extent that Sohu's Board of Directors determines that such measures are necessary or advisable to protect Sohu stockholder value in the face of any coercive takeover threats or to prevent an acquirer from gaining control of Sohu without offering fair and adequate price and terms.

Treasury Stock

Treasury stock consists of shares repurchased by Sohu.com Inc. that are no longer outstanding and are held by Sohu.com Inc. Treasury stock is accounted for under the cost method. For the nine months ended September 30, 2016 and 2015, the Company did not repurchase any shares of its common stock.

Stock Incentive Plan

Sohu (excluding Sohu Video), Sogou, Changyou, and Sohu Video have incentive plans for the granting of share-based awards, including options and restricted share units, to their directors, management and other key employees.

1) Sohu.com Inc. Share-based Awards

Sohu's 2000 Stock Incentive Plan

Sohu's 2000 Stock Incentive Plan (the "Sohu 2000 Stock Incentive Plan") provided for the issuance of up to 9,500,000 shares of common stock, including those issued pursuant to the exercise of stock options and upon vesting and settlement of restricted share units. Most of these awards vest over a period of four years. The maximum term of any issued stock right under the Sohu 2000 Stock Incentive Plan is ten years from the grant date. The Sohu 2000 Stock Incentive Plan expired on January 24, 2010. A new plan (the "Sohu 2010 Stock Incentive Plan") was adopted by Sohu's shareholders on July 2, 2010.

There has been no share-based compensation expense recognized under the Sohu 2000 Stock Incentive Plan since 2015, as the requisite service periods for all these awards had been completed by the end of 2014. No cash has been received under the Sohu 2000 Stock Incentive Plan since 2016, as all of these awards had been exercised by the end of 2015.

Sohu's 2010 Stock Incentive Plan

On July 2, 2010, the Company's shareholders adopted the Sohu 2010 Stock Incentive Plan, which provides for the issuance of up to 1,500,000 shares of common stock, including stock issued pursuant to the vesting and settlement of restricted stock units and pursuant to the exercise of stock options. The maximum term of any stock right granted under the Sohu 2010 Stock Incentive Plan is ten years from the grant date. The Sohu 2010 Stock Incentive Plan will expire on July 1, 2020. As of September 30, 2016, 360,930 shares were available for grant under the Sohu 2010 Stock Incentive Plan.

i) Summary of stock option activity

On February 7, 2015 and May 1, 2016, the Company's Board of Directors approved contractual grants to members of the Company's management and key employees of options for the purchase of an aggregate of 1,068,000 and 13,000 shares of common stock, respectively, with nominal exercise prices of $0.001. These stock options vest and become exercisable in four equal installments over a period of four years, with each installment vesting upon the satisfaction of a service period requirement and certain subjective performance targets. These stock options are substantially similar to restricted stock units except for the nominal exercise price, which would be zero for restricted stock units.

Under *ASC 718-10-25* and *ASC 718-10-55* , no grant date can be established for these stock options until a mutual understanding is reached between the Company and the recipients clarifying the subjective performance requirements. If the service inception date preceded the grant date, compensation expense should be accrued beginning on the service inception date, and re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. To determine the fair value of these stock options, the public market price of the underlying shares at each reporting date is used and a binomial valuation model is applied.

On February 7, 2016, 253,250 of these stock options had been granted and had become vested, as a mutual understanding of the subjective performance targets had been reached between the Company and the recipients, the targets had been satisfied, and the service period requirements had been fulfilled. The cumulative share-based compensation expense for these granted stock options has been adjusted and fixed based on the fair value at the grant date of $10.8 million.

A summary of stock option activity under the Sohu 2010 Stock Incentive Plan as of and for the nine months ended September 30, 2016 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding at January 1, 2016	0	$		$
Granted	253	0.001		
Exercised	(56)	0.001		
Forfeited or expired	0			
Outstanding at September 30, 2016	197	0.001	8.35	8,717
Vested at September 30, 2016	197	0.001	8.35	8,717
Exercisable at September 30, 2016	197	0.001	8.35	8,717

Note (1): The aggregated intrinsic value in the preceding table represents the difference between Sohu's closing stock price of $44.25 on September 30, 2016 and the nominal exercise prices of the stock options.

For the three and nine months ended September 30, 2016, total share-based compensation expense recognized for these stock options was $5.3 million and $3.6 million, respectively. For the three and nine months ended September 30, 2015, total share-based compensation expense recognized for these Sohu stock options was $1.7 million and $ 13.3 million, respectively.

ii) Summary of restricted share unit activity

A summary of restricted stock unit activity under the Sohu 2010 Stock Incentive Plan as of and for the nine months ended September 30, 2016 is presented below:

Restricted Stock Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2016	32	$ 70.24
Granted	11	51.00
Vested	(12)	56.83
Forfeited	(9)	63.45
Unvested at September 30, 2016	22	70.61
Expected to vest after September 30, 2016	17	68.96

For the three and nine months ended September 30, 2016, total share-based compensation expense recognized for restricted stock units was $0.4 million and $1.1 million, respectively. For the three and nine months ended September 30, 2015, total share-based compensation expense recognized for restricted stock units was $0.6 million and $1.8 million, respectively.

As of September 30, 2016, there was $0.7 million unrecognized compensation expense related to unvested restricted stock units. The expense is expected to be recognized over a weighted average period of 0.6 years. The total fair value on their respective vesting dates of restricted stock units that vested during the three and nine months ended September 30, 2016 was $0.2 million and $0.5 million, respectively. The total fair value on their respective vesting dates of restricted stock units that vested during the three and nine months ended September 30, 2015 was $0.3 million and $0.7 million, respectively.

2) Sogou Inc. Share-based Awards

Sogou 2010 Share Incentive Plan

Sogou adopted a share incentive plan on October 20, 2010. The number of Sogou ordinary shares issuable under the plan was 41,500,000 after an amendment that was effective August 22, 2014 (as amended, the "Sogou 2010 Share Incentive Plan"). Awards of share rights may be granted under the Sogou 2010 Share Incentive Plan to management and employees of Sogou and of any present or future parents or subsidiaries or VIEs of Sogou. The maximum term of any share right granted under the Sogou 2010 Share Incentive Plan is ten years from the grant date. The Sogou 2010 Share Incentive Plan will expire on October 19, 2020. As of September 30, 2016, Sogou had contractually granted options for the purchase of 38,441,000 Sogou ordinary shares under the 2010 Sogou Share Incentive Plan.

Of the contractually granted Sogou share options for the purchase of 38,441,000 Sogou ordinary shares, options for the purchase of 31,241,000 Sogou ordinary shares vest and become exercisable upon a service period requirement being met, as well as Sogou's achievement of performance targets for the corresponding period. Subject to achievement of the applicable performance targets, of these Sogou share options for the purchase of 31,241,000 Sogou ordinary shares, options for the purchase of 30,021,750 Sogou ordinary shares vest and become exercisable in four equal installments and options for the purchase of 1,219,250 Sogou ordinary shares vest and become exercisable in two to four installments over varying periods. Of these Sogou share options for the purchase of 31,241,000 Sogou ordinary shares, the terms of options for the purchase of 980,000 Sogou ordinary shares, which had previously included as vesting conditions a service period requirement and Sogou's completion of an IPO of its ordinary shares ("Sogou's IPO"), were amended in the first quarter of 2016 to remove as a condition of vesting completion of Sogou's IPO and add as a condition of vesting achievement of performance targets. For purposes of recognition of share-based compensation expense, each installment is considered to be granted as of the date that the performance target has been set. As of September 30, 2016, Sogou had granted options for the purchase of 25,337,008 Sogou ordinary shares under the 2010 Sogou Share Incentive Plan. As of September 30, 2016, options for the purchase of 22,923,259 Sogou ordinary shares had become vested and exercisable because both the service period and the performance requirements had been met, and of such vested options, options for the purchase of 22,918,596 Sogou ordinary shares had been exercised.

Of the contractually granted Sogou share options, options for the purchase of 7,200,000 Sogou ordinary shares vest and become exercisable in five equal installments, with (i) the first installment vesting upon Sogou's IPO and the expiration of all underwriters' lockup periods applicable to Sogou's IPO, and (ii) each of the four subsequent installments vesting on the first, second, third and fourth anniversary dates, respectively, of the closing of Sogou's IPO. The completion of an IPO is considered to be a performance condition of the awards. An IPO is not considered to be probable until it is completed. Under *ASC 718* , compensation cost should be accrued if it is probable that the performance condition will be achieved and should not be accrued if it is not probable that the performance condition will be achieved. As a result, no compensation expense will be recognized related to these Sogou share options until the completion of an IPO, and hence no share-based compensation expense was recognized for the three months ended September 30, 2016 for the options for the purchase of 7,200,000 Sogou ordinary shares that are subject to vesting upon completion of Sogou's IPO.

As of September 30, 2016, for purposes of recognition of share-based compensation expense, Sogou had granted Sogou share options for the purchase of 32,537,008 Sogou ordinary shares, of which options for the purchase of 9,618,412 Sogou ordinary shares were outstanding. A summary of Sogou share option activity under the Sogou 2010 Share Incentive Plan as of and for the nine months ended September 30, 2016 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2016	12,209	$ 0.369	
Granted	2,337	0.001	
Exercised	(3,800)	0.001	
Forfeited or expired	(1,128)	0.001	
Outstanding at September 30, 2016	9,618	0.468	6.58
Vested at September 30, 2016 and expected to vest thereafter	2,360		
Exercisable at September 30, 2016	5		

For the three and nine months ended September 30, 2016, total share-based compensation expense recognized for Sogou share options under the Sogou 2010 Share Incentive Plan was $0.2 million and $1.4 million, respectively. For the three and nine months ended September 30, 2015, total share-based compensation expense recognized for Sogou share options under the Sogou 2010 Share Incentive Plan was negative $0.4 million and $3.5 million, respectively.

As of September 30, 2016, there was $7.1 million of unrecognized compensation expense related to the unvested Sogou share options. The expense is expected to be recognized over a weighted average period of 0.34 years.

The fair value of the ordinary shares of Sogou was assessed using the income approach /discounted cash flow method, with a discount for lack of marketability, given that the shares underlying the awards were not publicly traded at the time of grant, and was determined with the assistance of a qualified professional appraiser using management's estimates and assumptions. This assessment required complex and subjective judgments regarding Sogou's projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants were made.

The fair value of the Sogou share options granted to Sogou management and key employees was estimated on the date of grant using the Binomial option - pricing model (the "BP Model") with the following assumptions used:

Assumptions Adopted	
Average risk-free interest rate	1.90%~2.77%
Exercise multiple	2~3
Expected forfeiture rate (post-vesting)	0%~12%
Weighted average expected option life	7
Volatility rate	43%~50%
Dividend yield	0%
Fair value	3.18~3.93

Sogou estimated the risk-free rate based on the market yields of U.S. Treasury securities with an estimated country-risk differential as of the valuation date. An exercise multiple was estimated as the ratio of the fair value of the Sogou ordinary shares over the exercise price as of the time the Sogou share option is exercised, based on consideration of research studies regarding exercise patterns based on historical statistical data. In Sogou's valuation analysis, a multiple of two was applied for employees and a multiple of three was applied for management. Sogou estimated the forfeiture rate to be 0% or 1% for the Sogou share options granted to Sogou management as of September 30, 2016 and 12% for the Sogou share options granted to Sogou employees as of September 30, 2016. The life of the Sogou share options is the contract life of the option. Based on the option agreement, the contract life of the Sogou share options is 10 years. As there is no trading market for Sogou's ordinary shares, the expected volatility at the valuation date was estimated based on the historical volatility of comparable companies for the period before the grant date with length commensurate with the expected term of the Sogou share options. Sogou has no history or expectation of paying dividends on its ordinary shares. Accordingly, the dividend yield was estimated to be 0%.

Sohu Management Sogou Share Option Arrangement

Under an arrangement providing for Sogou share-based awards to be available for grants to members of Sohu's Board of Directors, management and other key employees ("Sohu Management Sogou Share Option Arrangement"), which was approved by the boards of directors of Sohu and Sogou in March 2011, Sohu has the right to provide to members of Sohu' Board of Directors, management and other key employees the opportunity to purchase from Sohu up to 12,000,000 ordinary shares of Sogou at a fixed exercise price of $0.625 or $0.001 per share. Of these 12,000,000 ordinary shares, 8,800,000 are Sogou ordinary shares previously held by Sohu and 3,200,000 are Sogou ordinary shares that were newly-issued on April 14, 2011 by Sogou to Sohu at a price of $0.625 per share, or a total of $2.0 million. As of September 30, 2016, Sohu had contractually granted options for the purchase of 10,705,000 Sogou ordinary shares to members of Sohu' Board of Directors, management and other key employees under the Sohu Management Sogou Share Option Arrangement.

Of the contractually granted Sogou share options for the purchase of 10,705,000 Sogou ordinary shares, options for the purchase of 8,290,000 Sogou ordinary shares vest and become exercisable in four equal installments, with each installment vesting upon a service period requirement for Sohu's management and key employees being met, as well as Sogou's achievement of performance targets for the corresponding period. The performance target for each installment is set at the beginning of each vesting period. Accordingly, for purposes of recognition of share-based compensation expense, each installment is considered to be granted as of that date. As of September 30, 2016, Sohu had granted Sogou share options for the purchase of 8,290,000 Sogou ordinary shares under the Sohu Management Sogou Share Option Arrangement. As of September 30, 2016, options for the purchase of 8,232,500 Sogou ordinary shares had become vested and exercisable because both the service period and the performance requirements had been met, and vested options for the purchase of 7,512,500 Sogou ordinary shares had been exercised.

During 2015, options for the purchase of 15,000 Sogou ordinary shares were granted to members of Sohu's Board of Directors. These Sogou share options vested and became exercisable as of December 31, 2015, as the service period requirement for vesting was met.

The remaining options for the purchase of 2,400,000 Sogou ordinary shares vest and become exercisable in five equal installments, with (i) the first installment vesting upon Sogou's IPO and the expiration of all underwriters' lockup periods applicable to the IPO, and (ii) each of the four subsequent installments vesting on the first, second, third and fourth anniversary dates, respectively, of the closing of Sogou's IPO. All installments of the Sogou share options for the purchase of 2,400,000 Sogou ordinary shares that are subject to vesting upon the completion of Sogou's IPO were considered granted upon the issuance of the options. The completion of a firm commitment IPO is considered to be a performance condition of the awards. An IPO event is not considered to be probable until it is completed. Under *ASC 718* , compensation cost should be accrued if it is probable that the performance condition will be achieved and should not be accrued if it is not probable that the performance condition will be achieved. As a result, no compensation expense will be recognized related to these Sogou share options until the completion of an IPO, and hence no share-based compensation expense was recognized for the three months ended September 30, 2016 for these options for the purchase of 2,400,000 Sogou ordinary shares.

As of September 30, 2016, for purposes of recognition of share-based compensation expense, Sohu had granted options for the purchase of 10,705,000 Sogou ordinary shares, of which options for the purchase of 3,189,500 Sogou ordinary shares were outstanding. A summary of Sogou share option activity under the Sohu Management Sogou Share Option Arrangement as of and for the nine months ended September 30, 2016 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2016	3,664	$ 0.623	
Granted	58	0.625	
Exercised	(532)	0.625	
Forfeited or expired	0		
Outstanding at September 30, 2016	3,190	0.623	6.03
Vested at September 30, 2016 and expected to vest thereafter	790		
Exercisable at September 30, 2016	732		

For the three months and the nine months ended September 30, 2016, total share-based compensation expense recognized for Sogou share options under the Sohu Management Sogou Share Option Arrangement was $3,094 and $0.3 million, respectively. For the three months and the nine months ended September 30, 2015, total share-based compensation expense recognized for Sogou share options under the Sohu Management Sogou Share Option Arrangement was nil and $0.7 million, respectively.

As of September 30, 2016, there was $0.1 million unrecognized compensation expense related to unvested Sogou share options. The expense is expected to be recognized over a weighted average period of 0.25 years.

The method used to determine the fair value of Sogou share options granted to members of Sohu's Board of Directors, management and other employees was the same as the method used for the Sogou share options granted to Sogou's management and key employees as described above, except for the assumptions used in the BP Model as presented below:

Assumptions Adopted	
Average risk-free interest rate	2.01%~2.15%
Exercise multiple	2~3
Expected forfeiture rate (post-vesting)	0%
Weighted average expected option life	6
Volatility rate	43%~47%
Dividend yield	0%
Fair value	2.56~3.31

Option Modification

In the first and second quarter of 2013, a portion of the Sogou share options granted under the Sogou 2010 Share Incentive Plan and the Sohu Management Sogou Share Option Arrangement were exercised early, and the Sogou ordinary shares issued upon exercise were transferred to trusts with the original option grantees as beneficiaries. The trusts will distribute the Sogou ordinary shares to those beneficiaries in installments based on the vesting requirements under the option agreements. Although these trust arrangements caused a modification of the terms of these Sogou share options, the modification was not considered substantive. Accordingly, no incremental fair value related to these Sogou ordinary shares resulted from the modification, and the remaining share-based compensation expense for these Sogou ordinary shares will continue to be recognized over the original remaining vesting period. As of September 30, 2016, options for the purchase of 11,370,000 Sogou ordinary shares granted under the Sogou 2010 Share Incentive Plan had been exercised early but had not been distributed to the beneficiaries of the trusts. All of the early-exercised Sogou ordinary shares that were distributed to those beneficiaries by the trusts in accordance with the vesting requirements under the option agreements have been included in the disclosures under the heading "Sogou 2010 Share Incentive Plan" above.

Tencent Share-based Awards Granted to Employees Who Transferred to Sogou with Soso Search-related Businesses

Certain persons who became Sogou employees when Tencent's Soso search-related businesses were transferred to Sogou on September 16, 2013 had been granted restricted share units under Tencent's share award arrangements prior to the transfer of the businesses to Sogou. These Tencent restricted share units will continue to vest under the original Tencent share award arrangements provided the transferred employees continue to be employed by Sogou during the requisite service period. After the transfer of the Soso search-related businesses to Sogou, Sogou applied the guidance in *ASC 505-50* to measure the related compensation expense, based on the then-current fair value at each reporting date, which is deemed to have been incurred by Tencent as an investor on Sogou's behalf. To determine the then-current fair value of the Tencent restricted share units granted to these employees, the public market price of the underlying shares at each reporting date was applied. Because Sogou is not required to reimburse Tencent for such share-based compensation expense, the related amount was recorded by Sogou as a capital contribution from Tencent.

As of September 30, 2016, unvested Tencent restricted share unit awards held by these employees provided for the issuance of up to 53,100 ordinary shares of Tencent, taking into consideration a five-for-one split of Tencent's shares that became effective in May 2014. For the three and nine months ended September 30, 2016, share-based compensation expense of negative $38,458 and $0.8 million, respectively, related to these Tencent restricted share units was recognized in the Group's consolidated statements of comprehensive income. The negative $38,458 resulted from Sogou's true-up of share-based compensation expense for forfeited Tencent restricted share units. For the three and nine months ended September 30, 2015, share-based compensation expense of negative $0.9 million and $1.5 million, respectively, related to these Tencent restricted share units was recognized in the Group's consolidated statements of comprehensive income. The negative $0.9 million resulted from Sogou's true-up of share-based compensation expense for forfeited Tencent restricted share units and re-measurement of share-based compensation expense based on the then-current fair value of the awards on September 30, 2015. As of September 30, 2016, there was $0.3 million of unrecognized compensation expense related to these unvested Tencent restricted share units. This amount is expected to be recognized over a weighted average period of 1.43 years.

3) Changyou.com Limited Share-based Awards

Changyou's 2008 Share Incentive Plan

Changyou's 2008 Share Incentive Plan (the "Changyou 2008 Share Incentive Plan") originally provided for the issuance of up to 2,000,000 Changyou ordinary shares, including Changyou ordinary shares issued pursuant to the exercise of share options and upon vesting and settlement of restricted share units. The 2,000,000 reserved Changyou ordinary shares became 20,000,000 Changyou ordinary shares in March 2009 when Changyou effected a ten-for-one share split of its ordinary shares. Most of the awards granted under the Changyou 2008 Share Incentive Plan vest over a period of four years. The maximum term of any share right granted under the Changyou 2008 Share Incentive Plan is ten years from the grant date. The Changyou 2008 Share Incentive Plan will expire in August 2018.

Prior to the completion of Changyou's initial public offering, Changyou had granted under the Changyou 2008 Share Incentive Plan 15,000,000 Changyou ordinary shares to its former chief executive officer Tao Wang, through Prominence Investments Ltd., which is an entity that may be deemed under applicable rules of the Securities and Exchange Commission to be beneficially owned by Tao Wang. Through September 30, 2016, Changyou had also granted under the Changyou 2008 Share Incentive Plan restricted share units, settleable upon vesting by the issuance of an aggregate of 4,614,098 Changyou ordinary shares, to certain members of its management other than Tao Wang, and certain other Changyou employees.

i) Share-based Awards granted before Changyou's IPO

All of the restricted Changyou ordinary shares and restricted share units granted before Changyou's IPO became vested by the end of 2013. Hence there has been no share-based compensation expense recognized with respect to such restricted Changyou ordinary shares and restricted share units since their respective vesting dates.

ii) Share-based Awards granted after Changyou's IPO

Through September 30, 2016, in addition to the share-based awards granted before Changyou's IPO, Changyou had granted restricted share units, settleable upon vesting with the issuance of an aggregate of 1,581,226 Changyou ordinary shares, to certain members of its management other than Tao Wang and to certain of its other employees. These Changyou restricted share units are subject to vesting over a four-year period commencing on their grant dates. Share-based compensation expense for such Changyou restricted share units is recognized on an accelerated basis over the requisite service period. The fair value of Changyou restricted share units was determined based on the market price of Changyou's ADSs on the grant date.

A summary of activity for these Changyou restricted share units as of and for the nine months ended September 30, 2016 is presented below:

Restricted Share Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2016	20	$ 14.25
Granted	0	
Vested	0	
Forfeited	0	
Unvested at September 30, 2016	20	14.25
Expected to vest after September 30, 2016	20	14.25

For the three and nine months ended September 30, 2016, total share-based compensation expense recognized for the Changyou restricted share units described above was $22,000 and $66,000, respectively. For both the three and the nine months ended September 30, 2015, total share-based compensation expense recognized for the Changyou restricted share units described above was negative $0.3 million. The negative amount resulted from Changyou's reversal of share-based compensation expense for Changyou restricted share units that were cancelled due to termination of employment prior to vesting.

As of September 30, 2016, there was $44,000 unrecognized compensation expense related to the unvested restricted share units. The expense is expected to be recognized over a weighted average period of 0.63 years. The total fair value of these restricted share units vested was nil during both the three and the nine months ended September 30, 2016. The total fair value of these restricted share units vested during the three and nine months ended September 30, 2015 was nil and $0.7 million, respectively.

Changyou 2014 Share Incentive Plan

On June 27, 2014, Changyou reserved 2,000,000 of its Class A ordinary shares under the Changyou.com Limited 2014 Share Incentive Plan (the "Changyou 2014 Share Incentive Plan") for the purpose of making share incentive awards to certain members of its management and key employees. On November 2, 2014, the number of Class A ordinary shares reserved under the Changyou 2014 Share Incentive Plan increased from 2,000,000 to 6,000,000. The maximum term of any share right granted under the Changyou 2014 Share Incentive Plan is ten years from the grant date. The Changyou 2014 Share Incentive Plan will expire in June 2024. As of September 30, 2016, 2,808,000 shares were available for grant under the Changyou 2014 Share Incentive Plan.

i) Summary of share option activity

On November 2, 2014, Changyou approved the contractual grant of an aggregate of 2,416,000 Class A restricted share units to certain members of its management and certain other employees. On February 16, 2015, Changyou's Board of Directors approved the conversion of 2,400,000 of these Class A restricted share units into options for the purchase of Class A ordinary shares at an exercise price of $0.01. On June 1, 2015, Changyou's Board of Directors approved the contractual grant of options for the purchase of an aggregate of 1,998,000 Class A ordinary shares to certain members of its management and certain other employees at an exercise price of $0.01. On July 28, 2016, Changyou's Board of Directors approved the contractual grant of options for the purchase of an aggregate of 100,000 Class A ordinary shares to certain member of its management at an exercise price of $0.01. These Changyou share options vest in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and the achievement of certain subjective performance targets. These Changyou share options are substantially similar to restricted share units except for the nominal exercise price, which would be zero for restricted share units.

Under *ASC 718-10-25* and *ASC 718-10-55* , no grant date can be established until a mutual understanding is reached between the Company and the recipients clarifying the subjective performance requirements. If the service inception date preceded the grant date, compensation expense should be accrued beginning on the service inception date, and re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. To determine the fair value of these Changyou share options, the public market price of the underlying Changyou Class A ordinary shares at each reporting date is used and a binomial valuation model is applied.

On November 2, 2015 and June 1, 2016, 450,000 and 329,000, respectively, of these Changyou share options had been granted and had become vested, as a mutual understanding of the subjective performance targets had been reached between Changyou and the recipients, the targets had been satisfied, and the service period requirements had been fulfilled. The cumulative share-based compensation expense for these granted Changyou share options has been adjusted and fixed based on their fair value of $4.7 million and $3.2 million, respectively, at the grant date.

A summary of Changyou share option activity under the Changyou 2014 Share Incentive Plan as of and for the nine months ended September 30, 2016 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding at January 1, 2016	450	$ 0.01	8.84	$ 5,580
Granted	329	0.01		
Exercised	(269)	0.01		
Forfeited or expired	0			
Outstanding at September 30, 2016	510	0.01	8.32	6,942
Vested at September 30, 2016	510	0.01	8.32	6,942
Exercisable at September 30, 2016	510	0.01	8.32	6,942

Note (1): The aggregated intrinsic value in the preceding table represents the difference between Changyou's closing price of $27.25 per ADS, or $13.63 per Class A ordinary share, on September 30, 2016 and the nominal exercise prices of the share options.

For the three and nine months ended September 30, 2016, share-based compensation expense recognized for these share options under the Changyou 2014 Share Incentive Plan was $7.2 million and $9.3 million, respectively. For the three and nine months ended September 30, 2015, share-based compensation expense recognized for these share options under the Changyou 2014 Share Incentive Plan was negative $3.2 million and $7.7 million, respectively. The negative amount resulted from Changyou's reversal of share-based compensation expense for restricted share units that were cancelled during the third quarter of 2015 due to termination of employment prior to vesting.

ii) Summary of restricted share unit activity

On November 2, 2014, Changyou had contractually granted under the 2014 Share Incentive Plan an aggregate of 16,000 Changyou Class A restricted share units to an employee. These Class A restricted share units are subject to vesting over a four-year period commencing on their grant dates. The fair values as of the grant dates of these Changyou restricted share units were determined based on market price of Changyou's ADSs on the grant dates.

Due to the termination of employment of an employee during the second quarter of 2015 prior to vesting of Changyou restricted share units held by the employee, Changyou reversed share-based compensation expense in the amount of $17,000. There was no unrecognized compensation expense for these restricted share units after the second quarter of 2015, as all of them were forfeited during that quarter.

4) Sohu Video Share-based Awards

On January 4, 2012, Sohu Video adopted the Video 2011 Share Incentive Plan, under which 25,000,000 ordinary shares of Sohu Video are reserved for the purpose of making share incentive awards to management and key employees of Sohu Video and to Sohu management. The maximum term of any share incentive award granted under the Video 2011 Share Incentive Plan is ten years from the grant date. The Video 2011 Share Incentive Plan will expire on January 3, 2021. As of September 30, 2016, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made and were subject to vesting in four equal installments, with each installment vesting upon a service period requirement being met, as well as Sohu Video's achievement of performance targets for the corresponding period. For purposes of *ASC 718-10-25* , as of September 30, 2016, 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. As of September 30, 2016, options for the purchase of 4,972,800 Sohu Video ordinary shares were vested.

For the three months and the nine months ended September 30, 2016, total share-based compensation expense recognized for vested Sohu Video options under the Video 2011 Share Incentive Plan was $149,000 and negative $448,000, respectively. For the three months and the nine months ended September 30, 2015, total share-based compensation expense recognized for vested Sohu Video options under the Video 2011 Share Incentive Plan was $99,000 and $199,000, respectively.

The fair value of the Sohu Video options contractually granted to management and key employees of Sohu Video and to Sohu management was estimated on the reporting date using the BP Model, with the following assumptions used:

Assumptions Adopted	
Average risk-free interest rate	1.89%
Exercise multiple	2.8
Expected forfeiture rate (post-vesting)	19%
Weighted average expected option life	5.3
Volatility rate	49.7%
Dividend yield	0
Fair value	0.78

10. Related Party Transactions

Changyou's Loan Arrangements with SoEasy

Commencing in April 2015, certain subsidiaries of Changyou and certain subsidiaries of SoEasy entered into a series of loan agreements pursuant to which the subsidiaries of Changyou are entitled to draw down HK dollar-denominated or U.S. dollar-denominated loans from the SoEasy subsidiaries and the SoEasy subsidiaries are entitled to draw down equivalent RMB-denominated loans from the subsidiaries of Changyou, to facilitate each other's business operations. All of the loans carry a fixed rate of interest equal to the current market interest rate. During the first quarter of 2016, Changyou drew down from SoEasy U.S. dollar-denominated loans of approximately $29.9 million and granted RMB-denominated loans to SoEasy of approximately $30.2 million. During the second quarter of 2016, Changyou repaid to SoEasy U.S. dollar-denominated loans of approximately $12.9 million and received from SoEasy RMB-denominated loans of $12.1 million. As of September 30, 2016, Changyou had U.S. dollar-denominated loans payable to SoEasy in a total amount of approximately $29.2 million, which was recorded in other short-term liabilities. As of the same date, Changyou had RMB-denominated loans receivable from SoEasy in a total amount of approximately $29.2 million, which was recorded in prepaid and other current assets. For the three and nine months ended September 30, 2016, Changyou incurred interest expense of $0.2 million and $0.5 million, respectively, and earned interest income of $0.3 million and $1.0 million, respectively. As of September 30, 2016, total interest expense payable to SoEasy amounted to $0.4 million, which was recorded in other short-term liabilities; and total interest income receivable from SoEasy was $0.7 million, which was recorded in prepaid and other current assets.

Other Information

For the three and nine months ended September 30, 2016, the Sohu Group generated brand advertising revenue from SoEasy of nil and $862,000, respectively. For the three and nine months ended September 30, 2016, the Group incurred sales and marketing expense for SoEasy of nil and $216,000, respectively.

11. Sogou Transactions

On September 16, 2013, Sogou entered into a series of agreements with Tencent, Sohu Search and Photon Group Limited ("Photon") pursuant to which Sogou issued Series B Preferred Shares and Class B Ordinary Shares to Tencent for a net amount of $448 million in cash and Tencent transferred its Soso search-related businesses and certain other assets to Sogou (collectively, the "Sogou-Tencent Transactions"). Also on that date, Sogou entered into Repurchase Option Agreements with Sohu Search and Photon, and a Repurchase/Put Option Agreement with China Web Search (HK) Limited ("China Web"), with respect to all of the Series A Preferred Shares of Sogou held by Sohu Search and China Web, and a portion of the Series A Preferred Shares of Sogou held by Photon. Also on that date, 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 shares in all elections of directors to elect three designees of Sohu Search and two designees of Tencent.

In June 2014, Sogou repurchased approximately 4.2 million of its Class A Ordinary Shares from noncontrolling shareholders, a majority of whom were employees of the Group, for an aggregate purchase price of $41.6 million. In March 2014, September 2015, and September 2015, respectively, Sogou purchased from China Web, Sohu Search and Photon, pursuant to the Repurchase Option Agreements entered into in September 2013, 14.4 million, 24.0 million and 6.4 million Series A Preferred Shares of Sogou, for an aggregate purchase price of $47.3 million, $78.8 million and $21.0 million, respectively. After these repurchases, the Sohu Group holds approximately 36% of the outstanding equity capital of Sogou, assuming that all share options under the Sogou 2010 Share Incentive Plan and all share options under the Sohu Management Sogou Share Option Arrangement are granted and exercised and that all of the 4.2 million Class A Ordinary Shares Sogou repurchased in June 2014 were issued to shareholders other than Sohu.com Inc.

The Sohu Group holds over 50% of the total voting power and controls of the election of the Board of Directors of Sogou and, assuming that Tencent's non-voting Class B Ordinary Shares are converted to voting shares, and that all Sogou share options under the Sogou 2010 Share Incentive Plan and all Sogou share options under the Sohu Management Sogou Share Option Arrangement are granted and exercised, the Sohu Group will continue to do so. As Sohu.com Inc. is the controlling shareholder of Sogou, Sohu.com Inc. consolidates Sogou in the Group's consolidated financial statements, and recognizes noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu.com Inc.

Sohu's Shareholding in Sogou

As of September 30, 2016, Sogou had outstanding a combined total of 334,670,182 ordinary shares and preferred shares held as follows:

(i) Sohu.com Inc.: 131,697,750 Class A Ordinary Shares, of which 4,484,500 shares may be purchased by Sohu management and key employees under an option arrangement;

(ii) Photon: 32,000,000 Series A Preferred Shares

(iii) Tencent: 6,757,875 Class A Ordinary Shares, 65,431,579 Series B Preferred Shares and 79,368,421 non-voting Class B Ordinary Shares; and

(iv) Various employees of Sogou and Sohu: 19,414,557 Class A Ordinary Shares.

Because no ordinary shares will be issued with respect to share options granted by Sogou until they are vested and exercised, share options granted by Sogou that have not vested and vested share options that have not yet been exercised are not included as outstanding shares of Sogou and have no impact on the Sohu Group's basic net income per share. Unvested share options with performance targets achieved and vested share options that have not yet been exercised do, however, have a dilutive impact on the Sohu Group's dilutive net income per share. See Note 13 - Net Income/(Loss) per Share.

Terms of Sogou Preferred Shares

In connection with the Sogou-Tencent Transactions, Sogou's shareholders adopted a Fifth Amended and Restated Memorandum of Association and Second Amended and Restated Articles of Association (together, the "Revised Sogou Memorandum and Articles"), which became effective on September 16, 2013. The following is a summary of some of the key terms of the Sogou Series A Preferred Shares and Series B Preferred Shares (collectively, the "Sogou Preferred Shares") under the Revised Sogou Memorandum and Articles.

Dividend Rights

Sogou may not declare or pay dividends on its Class A Ordinary Shares or Class B Ordinary Shares (collectively, “Ordinary Shares”) unless the holders of the Sogou Preferred Shares then outstanding first receive a dividend on each outstanding Preferred Share in an amount at least equal to the sum of (i) the dividends that would have been payable to the holder of such Preferred Share if such share had been converted into Ordinary Shares, at the then-applicable conversion rate, immediately prior to the record date for such dividend, and (ii) all accrued and unpaid Accruing Dividends. “Accruing Dividends” are calculated from the date of issuance of the Series A Preferred Shares at the rate per annum of $0.0375 per Series A Preferred Share and from the date of issuance of the Series B Preferred Shares at the rate per annum of $0.411 per Series B Preferred Share.

Liquidation Rights

In the event of any “Liquidation Event,” such as the liquidation, dissolution or winding up of Sogou, a merger or consolidation of Sogou resulting in a change of control, the sale of substantially all of Sogou’s assets or similar events, the holders of Series B Preferred Shares are entitled to receive an amount per share equal to the greater of (i) $6.847 plus any unpaid Accruing Dividends or (ii) such amount per share as would have been payable if the Series B Preferred Shares had been converted into Ordinary Shares prior the Liquidation Event, and holders of Series A Preferred Shares are entitled to receive, after payment to the holders of the Series B Preferred Shares but before any payment to holders of Ordinary Shares, an amount equal to the greater of (i) 1.3 times their original investment in the Series A Preferred Shares plus all accrued but unpaid Accruing Dividends or (ii) such amount per share as would be payable if the Series A Preferred Shares had been converted into Ordinary Shares immediately prior to the Liquidation Event.

Redemption Rights

The Sogou Preferred Shares are not redeemable at the option of the holders.

Conversion Rights

Each Sogou Preferred Share is convertible, at the option of the holder, at any time, and without the payment of additional consideration by the holder. Each Sogou Preferred Share is convertible into such number of Class A Ordinary Shares as is determined, in the case of Series A Preferred Shares, by dividing $0.625 by the then-effective conversion price for Series A Preferred Shares, which is initially $0.625, and, in the case of Series B Preferred Shares, by dividing $7.267 by the then-effective conversion price for Series B Preferred Shares, which is initially $7.267. The conversion prices of the Sogou Preferred Shares are subject to adjustment on a weighted average basis upon the issuance of additional equity shares, or securities convertible into equity shares, at a price per share less than $0.625, in the case of Series A Preferred Shares, or less than $7.267, in the case of Series B Preferred Shares, subject to certain customary exceptions, such as shares issued pursuant to the Sogou 2010 Share Incentive Plan. Each Sogou Preferred Share will be automatically converted into Class A Ordinary Shares of Sogou upon the closing of a qualified IPO of Sogou based on the then-effective conversion ratio of such Sogou Preferred Share, which is currently one-for-one for both Series A Preferred Shares and Series B Preferred Shares.

Voting Rights

Each holder of Sogou Preferred Shares is entitled to cast the number of votes equal to the number of Class A Ordinary Shares into which the Sogou Preferred Shares held by such holder are then convertible.

Other Rights

The holders of Sogou Preferred Shares have various other rights typical of preferred share investments.

Terms of Sogou Class A Ordinary Shares and Class B Ordinary Shares

The Class A Ordinary Shares and Class B Ordinary Shares have identical rights, except that Class B Ordinary Shares do not have voting rights unless the holders of at least a majority of the then outstanding Class B Ordinary Shares elect, by written notice to Sogou, to convert them into shares with voting rights.

12. Noncontrolling Interest

The primary subsidiaries and VIEs of the Sohu Group which are consolidated in its consolidated financial statements with noncontrolling interest recognized are Sogou and Changyou.

Noncontrolling Interest for Sogou

Since Sohu.com Inc. controls the election of the Board of Directors of Sogou, Sohu.com Inc. is Sogou's controlling shareholder. Therefore, Sogou's financial results have been consolidated with those of Sohu.com Inc. for all periods presented. To reflect the economic interest in Sogou held by shareholders other than Sohu.com Inc. (the "Sogou noncontrolling shareholders"), Sogou's net income /(loss) attributable to the Sogou noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income. Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity /(deficit) and adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and the Sogou noncontrolling shareholders' investments in Sogou Preferred Shares and Ordinary Shares are accounted for as a noncontrolling interest classified as permanent equity in the Sohu Group's consolidated balance sheets, as the Sohu Group has the right to reject a redemption requested by the noncontrolling interest. These treatments are based on the terms governing the investment, and on the terms of the classes of Sogou shares held, by the noncontrolling shareholders in Sogou.

By virtue of these terms, Sogou's losses have been and will be allocated in the following order:

(i) net losses were allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares until their basis in Sogou decreased to zero;

(ii) additional net losses were allocated to holders of Sogou Series A Preferred Shares until their basis in Sogou decreased to zero;

(iii) additional net losses will be allocated to the holder of Sogou Series B Preferred Shares until its basis in Sogou decreases to zero; and

(iv) further net losses will be allocated between Sohu.com Inc. and noncontrolling shareholders based on their shareholding percentage in Sogou.

Net income from Sogou has been, and future net income from Sogou will be, allocated in the following order:

(i) net income will be allocated between Sohu.com Inc. and noncontrolling shareholders based on their shareholding percentage in Sogou until their basis in Sogou increases to zero;

(ii) additional net income will be allocated to the holder of Sogou Series B Preferred Shares to bring its basis back;

(iii) additional net income will be allocated to holders of Sogou Series A Preferred Shares to bring their basis back;

(iv) further net income will be allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares to bring their basis back; and

(v) further net income will be allocated between Sohu.com Inc. and noncontrolling shareholders based on their shareholding percentage in Sogou.

Noncontrolling Interest for Changyou

As Sohu.com Inc. is Changyou's controlling shareholder, Changyou's financial results have been consolidated with those of Sohu.com Inc. for all periods presented. To reflect the economic interest in Changyou held by shareholders other than Sohu.com Inc. (the "Changyou noncontrolling shareholders"), Changyou's net income /(loss) attributable to the Changyou noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income, based on their share of the economic interest in Changyou. Changyou's cumulative results of operations attributable to the Changyou noncontrolling shareholders, along with changes in shareholders' equity, adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and adjustment for changes in Sohu.com Inc.'s ownership in Changyou, are recorded as noncontrolling interest in the Sohu Group's consolidated balance sheets.

Noncontrolling Interest in the Consolidated Balance Sheets

As of December 31, 2015 and September 30, 2016, noncontrolling interest in the consolidated balance sheets was $547.6 million and $489.7 million, respectively.

	As of	
	December 31, 2015 (in thousands)	**September 30, 2016 (in thousands)**
Sogou	$ 125,314	$ 150,393
Changyou	364,416	397,246
Total	$ 489,730	$ 547,639

Noncontrolling Interest of Sogou

As of September 30, 2016 and December 31, 2015, noncontrolling interest of Sogou of $150.4 million and $125.3 million, respectively, was recognized in the Sohu Group’s consolidated balance sheets, representing Sogou’s cumulative results of operations attributable to shareholders other than Sohu.com Inc., Sogou’s share-based compensation expense, the investments of shareholders other than Sohu.com Inc. in Preferred Shares and Ordinary Shares of Sogou, the repurchase of Sogou Series A Preferred Shares from noncontrolling shareholders in March 2014 and September 2015, and Sogou’s repurchase of Class A Ordinary Shares from noncontrolling shareholders in June 2014.

Noncontrolling Interest of Changyou

As of September 30, 2016 and December 31, 2015, noncontrolling interest of Changyou of $397.2 million and $364.4 million, respectively, was recognized in the Sohu Group’s consolidated balance sheets, representing a 31% and 32% economic interest, respectively, in Changyou’s net assets held by shareholders other than Sohu.com Inc. and reflecting the reclassification of Changyou’s share-based compensation expense from shareholders’ additional paid-in capital to noncontrolling interest.

Noncontrolling Interest in the Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2016, net income attributable to the noncontrolling interest in the consolidated statements of comprehensive income was $32.8 million and $80.2 million, respectively. For the three and nine months ended September 30, 2015, net income attributable to the noncontrolling interest in the consolidated statements of comprehensive income was $42.1 million and $107.3 million, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Sogou	$35,930	$20,283	$ 74,212	$46,383
Changyou	6,212	12,492	33,133	33,855
Total	$42,142	$32,775	$107,345	$80,238

Noncontrolling Interest of Sogou

For the three months ended September 30, 2016 and 2015, a $20.3 million and $35.9 million net income attributable to the noncontrolling interest of Sogou, respectively, was recognized in the Sohu Group’s consolidated statements of comprehensive income, representing Sogou’s net income attributable to shareholders other than Sohu.com Inc.

Noncontrolling Interest of Changyou

For the three months ended September 30, 2016 and 2015, net income of 12.5 million and $6.2 million, respectively, attributable to the noncontrolling interest of Changyou, representing a 31% economic interest in Changyou attributable to shareholders other than Sohu.com Inc. for the three months ended both September 30, 2016 and 2015, was recognized in the Sohu Group’s consolidated statements of comprehensive income.

13. Net Income /(Loss) per Share

Basic net income /(loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income /(loss) per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income /(loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income /(loss) per share. For the three and nine months ended September 30, 2016, 214,000 and 241,000, respectively, common shares potentially issuable upon the exercise or settlement of share-based awards using the treasury stock method were anti-dilutive and excluded from the denominator for calculation of diluted net loss per share.

Additionally, for purposes of calculating the numerator of diluted net income /(loss) per share, the net income /(loss) attributable to Sohu.com Inc. is adjusted as follows. The adjustment will not be made if there is an anti-dilutive effect.

(1) Sogou's net income /(loss) attributable to Sohu.com Inc. is determined using the percentage that the weighted average number of Sogou shares held by Sohu.com Inc. represents of the weighted average number of Sogou Preferred Shares and Ordinary Shares, shares issuable upon the conversion of convertible preferred shares under the if-converted method, and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and is not determined by allocating Sogou's net income /(loss) to Sohu.com Inc. using the methodology for the calculation of net income /(loss) attributable to the Sogou noncontrolling shareholders discussed in Note 12 - Noncontrolling Interest.

In the calculation of Sohu.com Inc.'s diluted net income /(loss) per share, assuming a dilutive effect, the percentage of Sohu.com Inc.'s shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested Sogou share options with the performance targets achieved as well as vested but unexercised Sogou share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. The effect of this calculation is presented as "incremental dilution from Sogou" in the table below. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of Sohu.com Inc.'s diluted income /(loss) per share. As a result, Sogou's net income /(loss) attributable to Sohu.com Inc. on a diluted basis equals the number used for the calculation of Sohu.com Inc.'s basic net income /(loss) per share.

For the three and nine months ended September 30, 2016, all of these Sogou shares and share options had an anti-dilutive effect, and therefore were excluded from the calculation of Sohu.com Inc.'s diluted net loss per share, and "incremental dilution from Sogou" in the table below was zero.

(2) Changyou's net income /(loss) attributable to Sohu.com Inc. is determined using the percentage that the weighted average number of Changyou shares held by Sohu.com Inc. represents of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu.com Inc. of the total economic interest in Changyou, which is used for the calculation of basic net income per share.

In the calculation of Sohu.com Inc.'s diluted net income /(loss) per share, assuming a dilutive effect, all of Changyou's existing unvested restricted share units and share options, and vested restricted share units and share options that have not yet been settled, are treated as vested and settled by Changyou under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu.com Inc. in Changyou to decrease. As a result, Changyou's net income /(loss) attributable to Sohu.com Inc. on a diluted basis decreased accordingly. The effect of this calculation is presented as "incremental dilution from Changyou" in the table below. Assuming an anti-dilutive effect, all of these Changyou restricted share units and share options are excluded from the calculation of Sohu.com Inc.'s diluted net income /(loss) per share. As a result, Changyou's net income /(loss) attributable to Sohu.com Inc. on a diluted basis equals the number used for the calculation of Sohu.com Inc.'s basic net income /(loss) per share.

For the three and nine months ended September 30, 2016, all of these Changyou restricted share units had a dilutive effect, and therefore were included in the calculation of Sohu.com Inc.'s diluted net loss per share. This impact is presented as "incremental dilution from Changyou" in the table below.

The following table presents the calculation of the Sohu Group's basic and diluted net income/ (loss) per share (in thousands, except per share data).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Numerator:				
Net income /(loss) attributable to Sohu.com Inc., basic (after subtracting the deemed dividend to noncontrolling Sogou Series A Preferred shareholders)	$39,121	$(74,814)	$(19,198)	$(158,124)
Effect of dilutive securities:				
Incremental dilution from Sogou	0	0	0	0
Incremental dilution from Changyou	(324)	(472)	(884)	(1,125)
Net income /(loss) attributable to Sohu.com Inc., diluted	$38,797	$(75,286)	$(20,082)	$(159,249)
Denominator:				
Weighted average basic common shares outstanding	38,633	38,728	38,582	38,695
Effect of dilutive securities:				
Share options and restricted share units	32	0	0	0
Weighted average diluted common shares outstanding	38,665	38,728	38,582	38,695
Basic net income /(loss) per share attributable to Sohu.com Inc.	$ 1.01	$ (1.93)	$ (0.50)	$ (4.09)
Diluted net income /(loss) per share attributable to Sohu.com Inc.	$ 1.00	$ (1.94)	$ (0.52)	$ (4.12)

14. Recently Issued Accounting Pronouncements

Revenue from Contracts with Customers. In May 2014, the FASB issued *ASU No. 2014-09, ''Revenue from Contracts with Customers (Topic 606).''* This guidance supersedes current guidance on revenue recognition in Topic 605, ''Revenue Recognition." In addition, there are disclosure requirements related to the nature, amount, timing, and uncertainty of revenue recognition. In August 2015, the FASB issued *ASU No.2015-14* to defer the effective date of *ASU No. 2014-09* for all entities by one year. For public business entities that follow U.S. GAAP, the deferral results in the new revenue standard are being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for interim and annual periods beginning after December 15, 2016. The Sohu Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities. On January 5, 2016, the FASB issued *ASU 2016-01 ("ASU 2016-01")* , Recognition and Measurement of Financial Assets and Financial Liabilities, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This amendment requires all equity investments to be measured at fair value, with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). This standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Sohu Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Leases. On February 25, 2016, the FASB issued *ASU No. 2016-02 ("ASU 2016-02"), Leases* . *ASU 2016-02* specifies the accounting for leases. For operating leases, *ASU 2016-02* requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. *ASU 2016-02* is effective for public companies for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. The Sohu Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Compensation – Stock Compensation. On March 30, 2016, the FASB issued *ASU 2016-09 ("ASU 2016-09"), Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting* , which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows; (d) accounting for forfeitures of share-based payments. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Sohu Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Financial Instruments-Credit Losses. In June 2016, the FASB issued Accounting Standards Update *("ASU") 2016-13, Financial Instruments-Credit Losses (Topic 326)* , which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Sohu Group is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments,* which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Sohu Group is currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

15. Subsequent Event

On October 24, 2016, Sohu Media entered into a loan agreement (the "Loan Agreement") with AmazGame, pursuant to which Sohu Media may borrow from time to time from AmazGame up to RMB1.0 billion (or approximately US$148.64 million). The first request for an advance under the Loan Agreement must be made on or prior to December 31, 2016, and requests for further advances may be made for one year following the initial advance. Such one-year request period may be extended for another one-year period with the consent of AmazGame. Principal amounts outstanding under the Loan Agreement will bear interest at an annual rate of 6%. The outstanding principal of each advance will be due one year from the date of the advance, subject to extension for an additional year with the consent of AmazGame.

Also on October 24, 2016, Sohu.com (Game) Limited ("Sohu Game"), a Cayman Islands company that is an indirect subsidiary of Sohu and is the direct parent of Changyou, and Changyou entered into a share pledge agreement (the "Share Pledge Agreement") pursuant to which Sohu Game pledged to Changyou an agreed-upon number of Changyou Class B ordinary shares of Changyou held by Sohu Game. The share pledge agreement will give Changyou the right to apply the outstanding principal and accrued interest on the loan to the repurchase of Changyou Class B ordinary shares from Sohu Game in the event that such principal and interest are not paid when due.

As of the date of this report, Sohu Media has not requested any advances from AmazGame under the Loan Agreement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As used in this report, references to "us," "we," "our," "our company," "our Group," the "Sohu Group," the "Group," and "Sohu.com" are to Sohu.com Inc. and, except where the context requires otherwise, our subsidiaries and variable interest entities ("VIEs") Sohu.com Limited, Sohu.com (Hong Kong) Limited ("Sohu Hong Kong"), All Honest International Limited ("All Honest"), Sohu.com (Game) Limited ("Sohu Game"), Go2Map Inc., Sohu.com (Search) Limited ("Sohu Search"), Sogou Inc. ("Sogou"), Sogou (BVI) Limited ("Sogou BVI"), Sogou Hong Kong Limited ("Sogou HK"), Vast Creation Advertising Media Services Limited ("Vast Creation"), Sogou Technology Hong Kong Limited, Fox Video Investment Holding Limited ("Video Investment"), Fox Video Limited ("Sohu Video"), Fox Video (HK) Limited ("Video HK"), Focus Investment Holding Limited, Sohu Focus Limited, Sohu Focus (HK) Limited, Beijing Sohu New Era Information Technology Co., Ltd. ("Sohu Era"), Beijing Sohu Software Technology Co., Ltd., Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology"), Beijing Sogou Network Technology Co., Ltd ("Sogou Network"), Fox Information Technology (Tianjin) Limited ("Video Tianjin"), Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media"), Beijing Sohu New Momentum Information Technology Co., Ltd. ("Sohu New Momentum"), Beijing Century High Tech Investment Co., Ltd. ("High Century"), Beijing Heng Da Yi Tong Information Technology Co., Ltd. ("Heng Da Yi Tong", formerly known as Beijing Sohu Entertainment Culture Media Co., Ltd.), Beijing Sohu Internet Information Service Co., Ltd. ("Sohu Internet"), Beijing GoodFeel Technology Co., Ltd., Beijing Sogou Information Service Co., Ltd. ("Sogou Information"), Beijing 21 East Culture Development Co., Ltd., Beijing Sohu Donglin Advertising Co., Ltd.("Donglin"), Beijing Pilot New Era Advertising Co., Ltd. ("Pilot New Era"), Beijing Focus Yiju Network Information Technology Co., Ltd., SohuPay Science and Technology Co., Ltd., Beijing Sohu Dianjin Information Technology Co., Ltd., Beijing Yi He Jia Xun Information Technology Co., Ltd., Tianjin Jinhu Culture Development Co., Ltd. ("Tianjin Jinhu"), Guangzhou Qianjun Network Technology Co., Ltd. ("Guangzhou Qianjun"), Shenzhen Shi Ji Guang Su Information Technology Co., Ltd., Chengdu Sogou Easypay Technology Co., Ltd., Beijing Shi Ji Si Su Technology Co., Ltd., Chongqing Qogir Enterprise Management Consulting Co., Ltd., SendCloud Technology Co., Ltd., Beijing Hua Yang Lian Zhong Advertising Co., Ltd, Beijing Focus Interactive Information Service Co., Ltd., Beijing Focus Xin Gan Xian Information Technology Co., Ltd., Beijing Focus Real Estate Agency Co., Ltd. and our independently-listed majority-owned subsidiary Changyou.com Limited ("Changyou," formerly known as TL Age Limited) as well as the following direct and indirect subsidiaries and VIEs of Changyou: Changyou.com HK Limited ("Changyou HK") formerly known as TL Age Hong Kong Limited), Changyou.com Webgames (HK) Limited ("Changyou HK Webgames"), Changyou.com Gamepower (HK) Limited, ICE Entertainment (HK) Limited ("ICE HK"), Changyou.com Gamestar (HK) Limited, Changyou.com (US) LLC. (formerly known as AmazGame Entertainment (US) Inc.), Changyou.com Korea Limited, Changyou.com India Private Limited, Changyou BILISIM HIZMETLERI TICARET LIMITED SIRKETI, Kylie Enterprises Limited, Mobogarden Enterprises Limited, Heroic Vision Holdings Limited, TalkTalk Limited, RaidCall (HK) Limited, 7Road.com Limited ("7Road"), 7Road.com HK Limited ("7Road HK"), Changyou.com (TH) Limited, Changyou.com Rus Limited, PT.CHANGYOU TECHNOLOGY INDONESIA, Changyou Middle East FZ-LLC, Changyou.com Technology Brazil Desenvolvimento De Programas LTDA, Greative Entertainment Limited (formerly known as Greative Digital Limited), Glory Loop Limited ("Glory Loop"), MoboTap Inc. ("MoboTap", a Cayman Islands company), MoboTap Inc. Limited ("MoboTap HK"), MoboTap Inc. (a Delaware corporation), Dolphin Browser Inc., TMobi Limited (formerly known as Muse Entertainment Limited), Dstore Technology Limited, Mobo Information Technology Pte. Ltd., Changyou Mobo Glint Limited, Global Cool Limited, Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame"), Beijing Changyou Skyline Property Management Co. Ltd, Beijing Cruise stars Technology Co., Ltd., Beijing Changyou Gamespace Software Technology Co., Ltd. ("Gamespace"), ICE Information Technology (Shanghai) Co., Ltd. ("ICE Information"), Beijing Changyou RaidCall Internet Technology Co., Ltd. ("RaidCall"), Beijing Yang Fan Jing He Information Consulting Co., Ltd. ("Yang Fan Jing He"), Shanghai Jingmao Culture Communication Co., Ltd. ("Shanghai Jingmao"), Shanghai Hejin Data Consulting Co., Ltd., Beijing Changyou Jingmao Film & Culture Communication Co., Ltd. ("Beijing Jingmao"), Beijing Gamease Age Digital Technology Co., Ltd. ("Gamease"), Beijing Guanyou Gamespace Digital Technology Co., Ltd. ("Guanyou Gamespace"), Beijing Zhi Hui You Information Technology Co., Ltd., Shanghai ICE Information Technology Co., Ltd. ("Shanghai ICE"), Shenzhen 7Road Network Technologies Co., Ltd. ("7Road Technology"), Beijing Changyou Star Digital Technology Co., Ltd ("Changyou Star"), Beijing Changyou Creation Information Technology Co., Ltd. (formerly known as Beijing Changyou e-pay Co. Ltd.), Beijing Changyou Aishouxin Ecological Technology Co., Ltd., Shenzhen Brilliant Imagination Technologies Co., Ltd. ("Brilliant Imagination"), Fujian Changyou Heguang Electronic Technology Co., Ltd., Beijing Baina Information Technology Co., Ltd., Baina Zhiyuan (Beijing) Technology Co., Ltd. ("Beijing Baina Technology"), Baina Zhiyuan (Chengdu) Technology Co., Ltd., Chengdu Xingyu Technology Co., Ltd., Baina (Wuhan) Information Technology Co., Ltd. ("Wuhan Baina Information"), Wuhan Xingyu Technology Co., Ltd., Wuhan Hualian Chuangke Technology Co., Ltd., Beijing Global Cool Technology Co., Ltd., Beijing Changyou Creative Technology Co., Ltd., and HongKong New Xinlang Electron Group Limited, and these references should be interpreted accordingly. Unless otherwise specified, references to "China" or "PRC" refer to the People's Republic of China and do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect," "anticipate," "intend," "believe," or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth under the heading "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission ("SEC") on February 26, 2016, as updated by Part II Item 1A of this report. Readers are cautioned not to place undue reliance on these forward-looking statements.

OVERVIEW

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"). Our 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 Tian Long Ba Bu ("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 our operations are conducted through our China-based subsidiaries and VIEs.

Factors and Trends Affecting our Business

With the accelerated shift in user activities from PCs to mobile devices and an increase in the number of Internet users, the usage of various kinds of mobile Internet services continued to increase. At Sohu, we focused our efforts on developing a portfolio of leading mobile products across our business lines that we believed our users would like.

For Sohu Media Portal, we continued our efforts to improve content quality and refine our mobile news products — the Sohu News APP and the Web-based HTML5 Portal m.sohu.com. In September, we launched a new version of Sohu News App to optimize the user interface and enhance user engagement. As of September 2016, daily active users of Sohu News APP continued to gain traction. In the third quarter, amid the slowdown in the growth of the economy in China, ad spending by large brand advertisers was soft, while demand from small and medium enterprise (SME) customers remained healthy.

The online video service remained one of the most popular internet applications, and continued to gain viewers from television stations. The video industry continued to be deeply competitive as major online platforms aggressively competed for popular content. The competition lead to an escalation in the price of content. To secure a leading position in the online video industry, during 2016 Sohu Video has ramped up its investment in content, particularly in original productions. These investments have contributed to the expansion of our user base, which we expect will benefit our video advertising and subscription businesses. In the meantime, due to increased costs for content, the loss-making of Sohu Video widened in the first three quarters of 2016.

For our search and search-related business, Sogou is one of the top players in the online search sector in China. We have reinforced our competitive position through cooperation with Tencent, which has helped us build exclusive access to Tencent's social platforms and bring in unique and high-quality content. In the third quarter of 2016, we diligently enhanced our healthcare and English search services. Sogou's mobile search traffic more than doubled from the same period in 2015, contributing nearly three-fourths of aggregate traffic. Mobile search revenues accounted for more than 50% of total search revenues. During the third quarter, we also made encouraging progress in artificial intelligence, in particular with voice technology. The daily usage of voice input through Sogou Mobile Keyboard increased by 100% from a year ago. Due to newly-imposed regulations for online advertising that tightened the scrutiny of advertisers' qualifications, in the third quarter, Sogou's year-over-year revenue growth decelerated from the previous quarters.

For Changyou's PC game business, revenues from Tian Long Ba Bu ("TLBB") remained stable on a sequential basis. Changyou's top priority for TLBB is to retain a core base of game players and maintain the long-term healthy development of the game. To realize this, a new expansion pack for the game will be launched during the fourth quarter of 2016, which is expected to stabilize monthly active accounts, as well as to extend the game's life span. For Changyou's mobile game business, revenues from TLBB 3D mobile game declined sequentially by approximately 28%, mainly due to its natural declining life cycle and increasing competition in the Massively Multiplayer Online Role-playing Games ("MMORPGs") mobile game market. In order to extend the game's life span, Changyou will explore new social interactive features that can be added to the game. Overall, Changyou plans to stick to the "Top Games, Big IP, Mass Marketing" strategy, and focus on developing popular games that resonate with users and retain their interest over the long term. For the three months ended September 30, 2016, the PC games and mobile games that Changyou operates had approximately 5.5 million total average monthly active accounts and approximately 1.7 million total active paying accounts.

Our Business

Through the operation of Sohu, Sogou and Changyou, we generate online advertising revenues (including brand advertising revenues and search and search-related revenues), online games revenues and other revenues. Online advertising and online games are our core businesses. For the three months ended September 30, 2016, total revenues generated by Sohu, Sogou and Changyou were approximately $410.6 million, including:

Sohu:

- $99.2 million in brand advertising revenues, of which $48.0 million was from Sohu Media Portal, $25.4 million was from Sohu Video, and $25.8 million was from Focus; and
- $9.6 million in other revenues, mainly attributable to revenues from interactive broadcasting services, paid subscription services, mobile-related services and sub-licensing of purchased video content to third parties.

Total revenues generated by Sohu were $108.8 million.

Sogou:

- $150.7 million in search and search-related revenues; and
- $15.2 million in other revenues, primarily attributable to Sogou's offering of Internet value-added services (or "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.

Total revenues generated by Sogou were $165.9 million.

Changyou:

- $98.6 million in online game revenues;
- $11.7 million in brand advertising revenues, mainly attributable to Changyou's 17173.com Website; and
- $25.6 million in other revenues attributable to Changyou's cinema advertising and platform channel business.

Total revenues generated by Changyou were $135.9 million.

For the three months ended September 30, 2016 our total brand advertising revenues were $110.9 million, total search and search-related revenues were $150.7 million, total online game revenues were $98.6 million, and total other revenues were $50.4 million.

Sohu's Business

Brand Advertising Business

Sohu's main business is the brand advertising business, which offers to users, over our 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 our products and services are provided through Sohu Media Portal, Sohu Video and Focus.

- **Sohu Media Portal.** Sohu Media Portal is a leading online news and information provider in China. Sohu Media Portal provides users comprehensive content through www.sohu.com for PCs, the mobile phone application Sohu News APP and the mobile portal m.sohu.com;
- **Sohu Video.** Sohu Video is a leading online video content and 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 and services provider in China.

Revenues generated by the brand advertising business are classified as brand advertising revenues in our consolidated statements of comprehensive income.

Other Business

Sohu also engages in the other business, which consists primarily of interactive broadcasting services, sub-licensing of purchased video content to third parties, paid subscription services, the filming business, and mobile-related services. Revenues generated by Sohu from the other business are classified as other revenues in our consolidated statements of comprehensive income.

Sogou's Business

Search and Search-related Business

The search and search-related 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 the distribution of our advertisers' promotional links and advertisements by leveraging traffic on Sogou Website Alliance members' Websites. Our search and search-related business benefits from our collaboration with Tencent, which provides us access to traffic and content generated from users of products and services provided by Tencent.

Revenues generated by the search and search-related business are classified as search and search-related revenues in our consolidated statements of comprehensive income.

Other Business

Sogou also engages in the other business, primarily by offering 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 other business are classified as other revenues in our consolidated statements of comprehensive income.

Changyou's Business

Changyou's business lines consist of the online game business, the platform channel business and other business.

Online Game Business

Changyou's online game business offers to game players (a) PC games, which are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local client-end game access software be installed on the computers used; (b) mobile games, which are played on mobile devices and require an Internet connection; and (c) Web games, which are online games that are played through a Web browser with no local game software installation requirements. Web games became a relatively insignificant part of Changyou's online games business following the sale of 7Road's operating company Shenzhen 7Road Technology Co., Ltd., or Shenzhen 7Road, in August 2015. All of Changyou's games are operated under the item-based revenue model, meaning that game players can play the games for free, but can choose to pay for virtual items, which are non-physical items that game players can purchase and use within a game, such as gems, pets, fashion items, magic medicine, riding animals, hierograms, skill books and fireworks. Revenues derived from the operation of online games are classified as online game revenues in our consolidated statements of comprehensive income.

Platform Channel Business

Changyou's platform channel business consists primarily of the operation of the 17173.com Website, the Dolphin Browser and RaidCall. The 17173.com Website, which is one of the leading game information portals in China, provides news, electronic forums, online videos and other information services on online games to game players. The Dolphin Browser is a gateway to a host of user activities on mobile devices, with the majority of its users based in Europe, Russia and Japan. RaidCall provides online music and entertainment services, primarily in Taiwan. During the three months ended September 30, 2016, Changyou management determined that the Dolphin Browser was unable to provide expected synergies with Changyou's platform business and therefore formed the intention to divest Changyou's 51% equity interest in MoboTap (collectively with its subsidiaries and VIEs "MoboTap"), which is the mobile technology developer behind the Dolphin Browser. Therefore, the assets and liabilities of MoboTap were recognized as assets held for sale and liabilities held for sale, respectively, in the third quarter of 2016. Revenues generated by the 17173.com Website are classified as brand advertising revenues and revenues generated by the Dolphin Browser and by RaidCall are classified as other revenues in the Group's consolidated statements of comprehensive income.

Other Business

Changyou also operates a cinema advertising business, which consists of Changyou's offering of pre-film cinema advertising slots for advertisements that are shown before the screening of a movie in a cinema theatre. Revenues generated by Changyou's cinema advertising business are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

Our discussion and analysis of our financial condition and results of operations relates to our consolidated financial statements, which have been prepared in accordance with United States of America generally accepted accounting principles ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Identified below are the accounting policies that reflect our more significant estimates and judgments, and those that we believe are the most critical to fully understanding and evaluating our consolidated financial statements.

Basis of Consolidation

Our consolidated financial statements include the accounts of Sohu.com Inc. and its subsidiaries and consolidated VIEs. All intercompany transactions are eliminated.

VIE Consolidation

Our VIEs are wholly or partially owned by certain of our employees as nominee shareholders. For our consolidated VIEs, management made evaluations of the relationships between us and our 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, we control the shareholders' voting interests in these VIEs. As a result of such evaluation, management concluded that we are the primary beneficiary of our consolidated VIEs.

Noncontrolling Interest Recognition

Noncontrolling interests are recognized to reflect the portion of the equity of subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholder. Currently, the noncontrolling interests in our consolidated financial statements primarily consist of noncontrolling interests for Sogou and Changyou.

Noncontrolling Interest for Sogou

As we control the election of the Board of Directors of Sogou, we are Sogou's controlling shareholder. Accordingly, we consolidate Sogou in our consolidated financial statements, and recognize noncontrolling interest reflecting economic interests in Sogou held by shareholders other than us. To reflect the economic interest in Sogou held by shareholders other than us (the "Sogou noncontrolling shareholders"), Sogou's net income / (loss) attributable to the Sogou noncontrolling shareholders is recorded as noncontrolling interest in our consolidated statements of comprehensive income. Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity /(deficit) and adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and the Sogou noncontrolling shareholders' investments in Sogou Preferred Shares and Ordinary Shares are accounted for as a noncontrolling interest classified as permanent equity in our consolidated balance sheets, as we have the right to reject a redemption requested by the noncontrolling interest. These treatments are based on the terms governing investment, and on the terms of the classes of Sogou shares held, by the noncontrolling shareholders in Sogou.

By virtue of these terms, Sogou's losses have been and will be allocated in the following order:

(i) net losses were allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares until their basis in Sogou decreased to zero;

(ii) additional net losses were allocated to holders of Sogou Series A Preferred Shares until their basis in Sogou decreased to zero;

(iii) additional net losses will be allocated to the holder of Sogou Series B Preferred Shares until its basis in Sogou decreases to zero; and

(iv) further net losses will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

Net income from Sogou has been, and future net income from Sogou will be, allocated in the following order:

(i) net income will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou until their basis in Sogou increases to zero;

(ii) additional net income will be allocated to the holder of Sogou Series B Preferred Shares to bring its basis back;

(iii) additional net income will be allocated to holders of Sogou Series A Preferred Shares to bring their basis back;

(iv) further net income will be allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares to bring their basis back; and

(v) further net income will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

Noncontrolling Interest for Changyou

As of the date of this report, we held approximately 69% of the combined total of Changyou's outstanding ordinary shares, and controlled approximately 96% of the total voting power in Changyou. As we are Changyou's controlling shareholder, we consolidate Changyou in our consolidated financial statements, but recognize noncontrolling interest reflecting the economic interest in Changyou held by shareholders other than us.
To reflect the economic interest in Changyou held by shareholders other than us ("Changyou noncontrolling shareholders"), Changyou's net income /(loss) attributable to the Changyou noncontrolling shareholders is recorded as noncontrolling interest in our consolidated statements of comprehensive income, based on their share of the economic interest in Changyou. Changyou's cumulative results of operations attributable to the Changyou noncontrolling shareholders, along with changes in shareholders' equity, adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and adjustment for changes in our ownership in Changyou, are recorded as noncontrolling interest in our consolidated balance sheets.

Segment Reporting

Our 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 CODM is Sohu.com Inc.'s Chief Executive Officer.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. The recognition of revenues involves certain management judgments. The amount and timing of our revenues could be materially different for any period if management made different judgments or utilized different estimates.

Barter trade transactions in which physical goods or services (other than advertising services) are received in exchange for advertising services are recorded based on the fair values of the goods and services received. For online advertising-for-online advertising barter transactions, no revenue or expense is recognized because the fair value of neither the advertising surrendered nor the advertising received is determinable.

Online Advertising Revenues

Online advertising revenues include revenues from brand advertising services as well as search and search-related services. We recognize revenue for the amount of fees we receive from our advertisers, after deducting agent rebates and net of value-added tax ("VAT") and related surcharges.

Brand Advertising Revenues

<u>Business Model</u>

Through PCs and mobile devices, we provide advertisement placements to our advertisers on different Internet platforms and in different formats, which include banners, links, logos, buttons, full screen, pre-roll, mid-roll, post-roll video screens, pause video screens, loading page ads, news feed ads and in-feed video infomercial ads.

Currently we have four main types of pricing models, consisting of the Fixed Price model, the Cost Per Impression ("CPM") model, the E-commerce model, and the Cost Per click ("CPC") model.

Fixed Price model

Under the Fixed Price model, a contract is signed to establish a fixed price for the advertising services to be provided.

CPM model

Under the CPM model, the unit price for each qualifying display is fixed, but there is no overall fixed price for the advertising services stated in the contract with the advertiser. A qualifying display is defined as the appearance of an advertisement, where the advertisement meets criteria specified in the contract. Advertising fees are charged to the advertisers based on the unit prices and the number of qualifying displays.

E-commerce model

Under the e-commerce model, revenues were mainly generated from sales of membership cards which allow potential home buyers to purchase specified properties from real estate developers at a discount greater than the price that Focus charges for the card. Membership fees are refundable until the potential home buyer uses the discounts to purchase properties. Focus recognizes such revenues upon obtaining confirmation that the membership card has been redeemed to purchase a property.

CPC model

Under the CPC model, there is no overall fixed price for advertising services stated in the contract with the advertiser. We charge advertisers on a per-click basis when the users click on the advertisements. The unit price for each click is fixed or auction-based.

Revenue Recognition

For brand advertising revenue recognition, prior to entering into contracts, we make a credit assessment of the advertiser. For contracts for which collectability is determined to be reasonably assured, we recognize revenue when all revenue recognition criteria are met. In other cases, we only recognize revenue when the cash is received and all other revenue recognition criteria are met.

In accordance with *ASU No. 2009-13* , we treat advertising contracts with multiple deliverable elements as separate units of accounting for revenue recognition purposes and to recognize revenue on a periodic basis during the contract when each deliverable service is provided. Since the contract price is for all deliverables, we allocate the arrangement consideration to all deliverables at the inception of the arrangement on the basis of their relative selling prices.

Search and Search-related Revenues

Search and search-related services primarily include pay-for-click services, as well as online marketing services on Web directories operated by Sogou.

Pay-for-click Services

Pay-for-click services are services that enable our advertisers' promotional links to be displayed on Sogou search result pages and Sogou Website Alliance members' Websites where the links are relevant to the subject and content of such Web pages. For pay-for-click services, we introduce Internet users to our advertisers through our auction-based pay-for-click systems and charge advertisers on a per-click basis when the users click on the displayed links. Revenue for pay-for-click services is recognized on a per-click basis when the users click on the displayed links.

Online Marketing Services on Web Directories Operated by Sogou

Online marketing services on Web directories operated by Sogou mainly consist of displaying advertisers' promotional links on the Web pages of Web directories. Revenue for online marketing services on Web directories operated by Sogou is normally recognized on a straight-line basis over the contract period, provided our obligations under the contract have been met and all revenue recognition criteria have been met.

Both pay-for-click services and online marketing services on Web directories operated by Sogou expand distribution of advertisers' promotional links or advertisements by leveraging traffic on Sogou Website Alliance members' Websites. We recognize gross revenue equal to the amount of fees we receive from advertisers, as we have the primary responsibility for fulfillment and acceptability. Payments made to Sogou Website Alliance members are included in cost of search and search-related revenues as traffic acquisition costs. We pay Sogou Website Alliance members based on either revenue-sharing arrangements, under which we pay a percentage of pay-for-click revenues generated from clicks by users of their properties, or on a pre-agreed unit price.

Online Game Revenues

Changyou's online game business offers to game players PC games, mobile games and Web games. All of Changyou's games are operated under the item-based revenue model, where the basic game play functions are free of charge and players are charged for purchases of in-game virtual items, including those with a predetermined expiration time and perpetual virtual items. Revenues that Changyou generates from self-operated and licensed out online games are included in online game revenues.

Self-Operated Games

Changyou is the primary obligor of its self-operated games. Changyou hosts the games on its own servers and is responsible for the sale and marketing of the games as well as customer service. Accordingly, revenues are recorded gross of revenue sharing-payments to third-party developers and/or mobile APP stores, but are net of VAT and discounts to game card distributors where applicable. Changyou obtains revenues from the sale of in-game virtual items. Revenues are recognized over the estimated lives of the virtual items purchased by game players or as the virtual items are consumed. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of the recording of the revenues would be impacted.

PC Games

Proceeds from the self-operation of PC games are collected from players and third-party game card distributors through sales of Changyou's game points on its online payment platform and prepaid game cards. Self-operated PC games are either developed in house or licensed from third-party developers. For licensed PC games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers, and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are recorded in Changyou's cost of revenues.

Mobile Games

For self-operated mobile games, Changyou sells game points to its game players via third-party mobile APP stores. The mobile application stores in turn pay Changyou proceeds after deducting their share of pre-agreed revenue-sharing amounts.

Self-operated mobile games are either developed in house or licensed from or jointly developed with third-party developers. For licensed and jointly developed mobile games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers, and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to mobile application stores and third-party developers are recorded in Changyou's cost of revenues.

Web Games

Proceeds from self-operated Web games are collected from players through the sale of game points.

Licensed Out Games

Changyou also authorizes third parties to operate its online games. Licensed out games include PC games, mobile games and Web games developed in house and mobile games jointly developed with third-party developers. Changyou receives monthly revenue-based royalty payments from all the third-party licensee operators. Changyou receives additional up-front license fees from certain third-party licensee operators who are entitled to an exclusive right to operate Changyou's games in specified geographic areas. Since Changyou is obligated to provide post-sale services, the initial license fees are recognized as revenue ratably over the license period, and the monthly revenue-based royalty payments are recognized when relevant services are delivered, provided that collectability is reasonably assured. Changyou views the third-party licensee operators as Changyou's customers and recognizes revenues on a net basis, as Changyou does not have the primary responsibility for fulfillment and acceptability of the game services. Changyou remits to the third-party developers a pre-agreed percentage of revenues from jointly developed and licensed out mobile games, and recognizes revenues on a net basis.

Other revenues

Sohu

Sohu also engages in the other business, which consists primarily of interactive broadcasting services, sub-licensing of purchased video content to third parties, paid subscription services, and the filming business.

Sogou

Other revenues attributable to Sogou are primarily IVAS revenues derived from the operation of Web games and mobile games of third-party developers as well as other services and products that Sogou provides to users.

Changyou

Other revenues attributable to Changyou are primarily generated from its cinema advertising business and its platform channel business.

In its cinema advertising business, Changyou provides clients advertising placements in slots that are shown in theatres before the screening of movies. When all the recognition criteria are met, revenues from cinema advertising are recognized based on a percentage of the advertising slots actually delivered or on a straight-line basis over the contract period.

In its platform channel business, Changyou provides IVAS through its operation of software applications for PCs and mobile devices, such as the Dolphin Browser and RaidCall.

Product Development Expenses

Product development expenses mainly consist of salary and benefits expenses, technical service fees, depreciation and amortization expenses, stock-based compensation, content and license expenses, and facilities expenses. These expenses are incurred for the enhancement and maintenance of our Internet platforms as well as for our products and services, including the development costs of online games prior to the establishment of technological feasibility and maintenance costs after the online games are available for marketing.

Advertising Expenses

Advertising expenses are included in sales and marketing expenses, and generally represent the expenses of promotions to create or stimulate a positive image of the Sohu Group or a desire to subscribe for the Group's products and services. Advertising expenses are expensed as incurred.

Share-based Compensation Expense

Sohu (excluding Fox Video Limited), Sogou, Changyou, and Fox Video Limited ("Sohu Video") have incentive plans for the granting of share-based awards, including stock options, share options and restricted share units, to members of the boards of directors, management and other key employees.

For share-based awards for which a grant date has occurred, 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 share-based awards for which the service inception date precedes the grant date, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income beginning on the service inception date and is re-measured on each subsequent reporting date before the grant date, based on the estimated fair value of the related share-based awards. Share-based compensation expense is charged to the shareholders' equity or noncontrolling interest section in the consolidated balance sheets. The assumptions used in share-based compensation expense recognition represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. If factors change or different assumptions are used, our share-based compensation expense could be materially different for any period. Moreover, the estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us for accounting purposes.

Sohu (excluding Sohu Video), Sogou, and Changyou Share-based Awards

Sohu (excluding Sohu Video) Share-based Awards

In determining the fair value of stock options granted by Sohu (excluding Sohu Video) as share-based awards before 2006, the Black-Scholes valuation model was applied. In determining the fair value of restricted share units granted, the public market price of the underlying shares on the grant dates was applied.

Options for the purchase of 1,068,000 and 13,000 shares of Sohu common stock contractually granted on February 7, 2015 and May 1, 2016, respectively, are subject to vesting 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. Under *ASC 718-10-25* , no grant date can be established until a mutual understanding is reached between Sohu 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 values 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 values of the stock options granted, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied.

Sogou Share-based Awards

In determining the fair value of share options granted by Sogou as share-based awards, the income approach /discounted cash flow method with a discount for lack of marketability was applied, given that the shares underlying the awards were not publicly traded at the time of grant. Certain persons who became Sogou employees when Tencent's Soso search-related businesses were transferred to Sogou on September 16, 2013 had been granted restricted share units under Tencent's share award arrangements prior to the transfer of the businesses to Sogou. These Tencent restricted share units will continue to vest under the original Tencent share award arrangements provided the transferred employees continue to be employed by Sogou during the requisite service period. After the transfer of the Soso search-related businesses to Sogou, Sogou applied the guidance in *ASC 505-50* to measure the related compensation expense, based on the then-current fair value at each reporting date, which is deemed to have been incurred by Tencent as an investor on Sogou's behalf. To determine the then-current fair value of the Tencent restricted share units granted to these employees, the public market price of the underlying shares at each reporting date was applied. Because Sogou is not required to reimburse Tencent for such share-based compensation expense, the related amount was recorded by Sogou as a capital contribution from Tencent.

Changyou Share-based Awards

In determining the fair value of ordinary shares and restricted share units granted by Changyou as share-based awards in 2008, the income approach /discounted cash flow method with a discount for lack of marketability was applied, given that the shares underlying the awards were not publicly traded at the time of grant. In determining the fair value of restricted share units granted in 2009 shortly before Changyou's initial public offering, the fair value of the underlying shares was determined based on Changyou's offering price for its initial public offering. In determining the fair value of restricted share units granted after Changyou's initial public offering, the public market price of the underlying shares on the grant dates was applied.

Options for the purchase of 2,400,000 Changyou ordinary shares that were converted to options from restricted share units on February 16, 2015, options contractually granted on June 1, 2015 for the purchase of 1,998,000 Changyou ordinary shares and options contractually granted on July 28, 2016 for the purchase of 1000,000 Changyou ordinary shares are subject to vesting 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. Under *ASC 718-10-25* , no grant date can be established until a mutual understanding is reached between Changyou 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 values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair values at the grant date. In determining the fair values of Changyou share options granted, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied.

Compensation Expense Recognition

For options and restricted share units granted with respect to Sohu (excluding Sohu Video) shares and Changyou shares, compensation expense is recognized on an accelerated basis over the requisite service period. For share options granted with respect to Sogou shares, compensation expense is recognized on a straight-line basis over the estimated period during which the service period requirement and performance target will be met. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses, compensation expense is recognized by Sogou on an accelerated basis over the requisite service period, and the fair value of the share-based compensation is re-measured at each reporting date until a measurement date occurs. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and no compensation expense is recorded for the number of awards so estimated.

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 September 30, 2016, 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 September 30, 2016, 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. Therefore the fair value of the awards is not determinable and cannot be accounted for. In accordance with *ASC 718-10-55* , our 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, we recognized compensation expense for these vested Sohu Video share-based awards and re-measured, and will re-measure, the compensation expense on each subsequent reporting date based on the then-current fair values of these vested awards until the grant date is established.

Taxation

Income Taxes

Recognition

Income taxes are accounted for using an asset and liability approach which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Deferred income taxes are determined based on the differences between the accounting basis and the tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. Deferred tax assets are reduced by a valuation allowance, if based on available evidence, it is considered that it is more likely than not that some portion of or all of the deferred tax assets will not be realized. In making such determination, we consider factors including future reversals of existing taxable temporary differences, future profitability, and tax planning strategies. If events were to occur in the future that would allow us to realize more of our deferred tax assets than the presently recorded net amount, an adjustment would be made to the deferred tax assets that would increase income for the period when those events occurred. If events were to occur in the future that would require us to realize less of our deferred tax assets than the presently recorded net amount, an adjustment would be made to the valuation allowance against deferred tax assets that would decrease income for the period when those events occurred. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities.

Our deferred tax assets relate to net operating losses and temporary differences between accounting basis and tax basis for our China- Based Subsidiaries and VIEs, which are subject to corporate income tax in the PRC under the PRC Corporate Income Tax Law (the "CIT Law").

Applicable Income Tax Rate

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%, but need to re-apply every three years. During this three-year period, an HNTE must conduct an annual qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HTNE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% CIT rate. 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" ("KNSE") can enjoy a further reduced preferential income tax rate of 10 Enterprises must perform a self-assessment each year to ensure they meet the relevant criteria for qualification as Software Enterprises and/or KNSEs and file required documents with the tax authorities before using the preferential CIT rates. These enterprises will be subject to authorities' assessment each year after as to whether they are entitled to use the relevant preferential CIT treatments. If at any time during the preferential tax treatment years an enterprise uses the preferential CIT rates but fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise's Software Enterprise/KNSE status.

Principal Entities Qualified as HNTEs

As of September 30, 2016, the following principal entities were qualified as HNTEs and were entitled to an income tax rate of 15%.

For Sohu's Business

- Sohu Internet. Sohu Internet is qualified as an HNTE for 2016 and 2017, and will need to re-apply for HNTE qualification in 2018.
- Sohu Era, Sohu Media and Guangzhou Qianjun. Sohu Era, Sohu Media and Guangzhou Qianjun are each qualified as HNTEs for 2016, and will need to re-apply for HNTE qualification in 2017.

For Sogou's Business

- Sogou Information. Sogou Information is qualified as an HNTE for 2016 and 2017, and will need to re-apply for HNTE qualification in 2018.
- Sogou Technology. Sogou Technology is qualified as an HNTE for 2016, and will need to re-apply for HNTE qualification in 2017.

For Changyou's Business

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

Principal Entities Qualified as Software Enterprises

For Sohu's Business

- Sohu New Momentum. In 2016, Sohu New Momentum is in the first of three years in which it is entitled to a 50% reduction to a rate of 12.5% as a Software Enterprise.

For Sogou's Business

- Sogou Technology recently filed documents for qualification as a KNSE for 2015 pursuant to new requirements for obtaining such qualification that were issued on May 4, 2016. As of the date of this report Sogou Technology had not received a response to the filing.
- Sogou Network recently filed documents for qualification as a Software Enterprise for 2015 pursuant to new requirements for obtaining such qualification that were issued on May 4, 2016. As of the date of this report Sogou Network had not received a response to the filing.

For Changyou's Business

- AmazGame. In 2013 and 2014, AmazGame was qualified as a KNSE and enjoyed a preferential income tax rate of 10% and recently received confirmation that it was qualified as a KNSE for 2015.
- Gamespace. In 2016, Gamespace is in the third of 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 on dividends distributed by foreign invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate may be applied if there is a tax treaty 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%.

PRC Value-Added Tax

On May 1, 2016, the transition from the imposition of PRC business tax ("Business Tax") to the imposition of value-added tax ("VAT") was expanded to all industries in China, and all of the Sohu Group's revenues have been subject to VAT since that date. To record VAT payable, the Group adopted the net presentation method, which presents the difference between the output VAT (at a rate of 6%) and the available input VAT amount (at the rate applicable to the supplier).

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 portions of its U.S. taxable income, such as Subpart F income or a dividend, are determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may be able to claim foreign tax credits to offset its U.S. income tax liabilities. Any remaining liabilities are accrued in the Company's consolidated statements of comprehensive income and estimated tax payments are made when required by U.S. law.

Uncertain Tax Positions

We are subject to various taxes in different jurisdictions, primarily the U.S. and the PRC. Management reviews regularly the adequacy of the provisions for taxes as they relate to our income and transactions. In order to assess uncertain tax positions, we apply 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.

Net Income / (Loss) per Share

Basic net income / (loss) per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income / (loss) per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income / (loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income / (loss) per share. Additionally, for purposes of calculating the numerator of diluted net income / (loss) per share, the net income / (loss) attributable to the Sohu Group is adjusted as follows. The adjustment will not be made if there is an anti-dilutive effect.

(1) Sogou's net income /(loss) attributable to Sohu.com Inc. is determined using the percentage that the weighted average number of Sogou shares held by Sohu.com Inc. represents of the weighted average number of Sogou Preferred Shares and Ordinary Shares, shares issuable upon the conversion of convertible preferred shares under the if-converted method, and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and is not determined by allocating Sogou's net income /(loss) to Sohu.com Inc. using the methodology for the calculation of net income /(loss) attributable to the Sogou noncontrolling shareholders.

In the calculation of Sohu.com Inc.'s diluted net income / (loss) per share, assuming a dilutive effect, the percentage of Sohu.com Inc.'s shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested Sogou share options with the performance targets achieved as well as vested but unexercised Sogou share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of Sohu.com Inc.'s diluted income /(loss) per share. As a result, Sogou's net income /(loss) attributable to Sohu.com Inc. on a diluted basis equals the number used for the calculation of Sohu.com Inc.'s basic net income /(loss) per share.

(2) Changyou's net income /(loss) attributable to Sohu.com Inc. is determined using the percentage that the weighted average number of Changyou shares held by Sohu.com Inc. represents of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu.com Inc. of the total economic interest in Changyou, which is used for the calculation of basic net income per share.

In the calculation of Sohu.com Inc.'s diluted net income/ (loss) per share, assuming a dilutive effect, all of Changyou's existing unvested restricted share units and share options, and vested restricted share units and share options that have not yet been settled, are treated as vested and settled by Changyou under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu.com Inc. in Changyou to decrease. As a result, Changyou's net income / (loss) attributable to Sohu.com Inc. on a diluted basis decreased accordingly. Assuming an anti-dilutive effect, all of these Changyou restricted share units and share options are excluded from the calculation of Sohu.com Inc.'s diluted net income /(loss) per share. As a result, Changyou's net income /(loss) attributable to Sohu.com Inc. on a diluted basis equals the number used for the calculation of Sohu.com Inc.'s basic net income /(loss) per share.

Fair Value of Financial Instruments

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.

Our financial instruments mainly include cash equivalents, short-term investments, accounts receivable, assets held for sale, prepaid and other current assets, long-term investments (including available-for-sale equity securities), restricted time deposits, accounts payable, accrued liabilities, receipts in advance and deferred revenue, liabilities held for sale, other short-term liabilities and long-term accounts payable.

Cash Equivalents

Our cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash.

Short-term Investments

For investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, we elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair values are reflected in the consolidated statements of comprehensive income.

Accounts Receivable, Net

The carrying value of accounts receivable is reduced by an allowance that reflects our best estimate of the amounts that will not be collected. We make estimations of the collectability of accounts receivable. Many factors are considered in estimating the general allowance, including reviewing delinquent accounts receivable, performing an aging analysis and a customer credit analysis, and analyzing historical bad debt records and current economic trends.

Available-for-Sale Securities

Investments in debt securities and equity securities that have readily determinable fair values not classified as trading securities or as held-to-maturity securities are classified as available-for-sale securities, and are included in long-term investments. Available-for-sale securities are reported at fair value, with unrealized gains or losses recorded in other comprehensive income or losses in the consolidated balance sheets. Realized gains or losses are included in the consolidated statements of comprehensive income during the period in which the gain or loss is realized. An impairment loss on the available-for-sale securities is recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

Restricted Time Deposits

Restricted time deposits are valued based on the prevailing interest rates in the market using the discounted cash flow method.

Collateral related to Sogou Incentive Shares Trust Arrangements

In February 2013, we 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. We were not subject to any additional potential payments other than the restricted time deposit amounts, and believe that the fair value of our guarantee liability was immaterial.

Changyou Loans from Offshore Banks, Secured by Time Deposits

Commencing in 2012, we had, through Changyou, loans from offshore banks secured by RMB deposits in onshore branches of those banks. The loans from the offshore branches of the lending banks are classified as short-term bank loans or long-term bank loans based on their repayment period. The rates of interest under the loan agreements with the lending banks were determined based on the prevailing interest rates in the market. The RMB onshore deposits securing the offshore loans are treated as restricted time deposits on our consolidated balance sheets. In the first quarter of 2016, Changyou had repaid all of the remaining bank loans, and restricted time deposits that secured these loans had been released.

Equity Investments

Investments in entities are recorded as equity investments under long-term investments. For entities over which we do not have significant influence, the cost method is applied, as there is no readily determinable fair value; for entities over which we can exercise significant influence but do not own a majority equity interest or control, the equity method is applied. For cost method investments, we carry the investment at historical cost after the date of investment. For equity method investments, we adjust the carrying amount of an investment and recognize investment income or loss for our share of the earnings or loss of the investee after the date of investment.

Long-Lived Assets

Long-lived assets include fixed assets and intangible assets.

Fixed Assets

Fixed assets mainly comprise office buildings, leasehold improvements, building improvements, vehicles, office furniture and computer equipment and hardware. Fixed assets are recorded at cost less accumulated depreciation with no residual value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Fixed Assets	Estimated Useful Lives (years)
Office buildings	36-47
Leasehold improvements	Lesser of term of the lease or the estimated useful lives of the assets
Building improvements	10
Vehicles	4-10
Office furniture	5
Computer equipment and hardware	2-5

Expenditure for maintenance and repairs is expensed as incurred.

The gain or loss on the disposal of fixed assets is the difference between the net sales proceeds and the lower of the carrying value or fair value less cost to sell the relevant assets and is recognized in operating expenses in the consolidated statements of comprehensive income.

Intangible Assets

Intangible assets mainly comprise domain names and trademarks, developed technologies, computer software, video content, cinema advertising slot rights and operating rights for licensed games. Intangible assets are recorded at cost less accumulated amortization with no residual value. Amortization of intangible assets other than purchased video content is computed using the straight-line method over their estimated useful lives.

The estimated useful lives of our intangible assets are listed below:

Intangible Assets	Estimated Useful Lives (years)
Domain names and trademarks	4-30
Developed technologies	3-10
Computer software	1-5
Video content	4 months to 2 years, or over the applicable licensing period
Cinema advertising slot rights	over the contract terms
Operating rights for licensed games	over the contract terms

Video Content

Video content consists primarily of purchased video content and self-developed video content. Purchased video content is recognized as intangible assets. Amortization of purchased video content is computed based on the trend in viewership accumulation. For self-developed video content, production costs incurred in excess of the amount of revenue contracted for are expensed as incurred, instead of being recorded as intangible assets.

Sohu Video enters into nonmonetary transactions to exchange online broadcasting rights for purchased video content with other online video broadcasting companies. Under *ASC 845* , the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain the acquired nonmonetary asset, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if the fair value of the asset received is more reliable than the fair value of the asset surrendered. We record these nonmonetary exchanges at the fair values of the online broadcasting rights for purchased video content and recognize any gain or loss from such exchange transactions.

Impairment of Long-lived Assets

In accordance with *ASC 360-10-35* , we review the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Based on the existence of one or more indicators of impairment, we measure any impairment of long-lived assets using the projected discounted cash flow method at the asset group level. The estimation of future cash flows requires significant management judgment based on our historical results and anticipated results and is subject to many factors. The discount rate that is commensurate with the risk inherent in our business model is determined by our management. An impairment loss would be recorded if we determined that the carrying value of long-lived assets may not be recoverable. The impairment to be recognized is measured by the amount by which the carrying values of the assets exceed the fair value of the assets.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of our acquisitions of interests in our subsidiaries and consolidated VIEs. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our financial statements provisional amounts for the items for which the accounting is incomplete. If a measurement period adjustment is identified, we recognize the adjustment as part of the acquisition accounting. We increase or decrease the provisional amounts of identifiable assets or liabilities by means of increases or decreases in goodwill for measurement period adjustments.

In accordance with *ASC 350* , we do not amortize goodwill, but test it for impairment. We test goodwill for impairment at the reporting unit level on an annual basis as of October 1, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. Under *ASC 350-20-35* , we have the option to choose whether we will apply a qualitative assessment first and then a quantitative assessment, if necessary, or to apply a quantitative assessment directly. For reporting units applying a qualitative assessment first, we start the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of goodwill with its carrying value. For reporting units directly applying the quantitative assessment, we perform the goodwill impairment test by quantitatively comparing the fair values of those reporting units to their carrying amounts.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Comprehensive Income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented on our consolidated balance sheets, includes a cumulative foreign currency translation adjustment and a unrealized gain/(loss) on available-for-sale securities.

Functional Currency and Foreign Currency Translation

An entity's functional currency is the currency of the primary economic environment in which it operates, normally that is the currency of the environment in which the entity primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements. The functional currency of Sohu.com Inc. is the U.S. dollar. The functional currency of our subsidiaries in the U.S., the Cayman Islands, the British Virgin Islands and Hong Kong is the U.S. dollar. The functional currencies of our subsidiaries and VIEs in other countries are the national currencies of those counties, rather than the U.S. dollar.

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency re-measurement are included in the consolidated statements of comprehensive income.

Financial statements of entities with a functional currency other than the U.S. dollar are translated into U.S. dollars, which is the reporting currency. Assets and liabilities are translated at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average of the exchange rates in effect during the reporting period. Shareholders' equity accounts are translated using the historical exchange rates at the date the entry to shareholders' equity was recorded, except for the change in retained earnings during the year, which is translated using the historical exchange rates used to translate each period's income statement. Differences resulting from translating a foreign currency to the reporting currency are recorded in accumulated other comprehensive income in the consolidated balance sheets.

RESULTS OF OPERATIONS

Revenues

The following table presents our revenues by revenue source and by proportion for the periods indicated (in thousands, except percentages):

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	Three Months Ended September 30, 2015 Amount	2015 Percentage of the total revenue	2016 Amount	2016 Percentage of the total revenue	2016 vs 2015 Amount	2016 vs 2015 Incremental ratio	Nine Months Ended September 30, 2015 Amount	2015 Percentage of the total revenue	2016 Amount	2016 Percentage of the total revenue	2016 vs 2015 Amount	2016 vs 2015 Incremental ratio
Revenues												
Online advertising:												
Brand advertising	$151,517	29%	$110,871	27%	(40,646)	(27)%	$ 436,187	30%	$ 349,261	28%	(86,926)	(20)%
Search and search-related	147,938	28%	150,667	37%	2,729	2%	388,270	26%	444,633	36%	56,363	15%
Subtotal of online advertising revenues	299,455	57%	261,538	64%	(37,917)	(13)%	824,457	56%	793,894	64%	(30,563)	(4)%
Online game	152,501	29%	98,553	24%	(53,948)	(35)%	509,845	35%	300,309	24%	(209,536)	(41)%
Others	70,134	14%	50,491	12%	(19,643)	(28)%	136,686	9%	144,469	12%	7,783	6%
Total revenues	$522,090	100%	$410,582	100%	(111,508)	(21)%	$1,470,988	100%	$1,238,672	100%	(232,316)	(16)%

Online Advertising Revenues

Online advertising revenues were $261.5 million and $793.9 million, respectively, for the three and nine months ended September 30, 2016, compared to $299.5 million and $824.5 million, respectively, for the corresponding periods in 2015. The decrease in online advertising revenues from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $37.9 million, representing a year-on-year decrease rate of 13%, and the decrease from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $30.6 million, representing a year-on-year decrease rate of 4%.

Brand Advertising Revenues, Generated by Sohu and Changyou

Brand advertising revenues were $110.9 million and $349.3 million, respectively, for the three and nine months ended September 30, 2016, compared to $151.5 million and $436.2 million, respectively, for the corresponding periods in 2015. The decrease in brand advertising revenues from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $40.6 million, representing a year-on-year decrease rate of 27%, and the decrease from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $86.9 million, representing a year-on-year decrease rate of 20%. The year-on-year decreases in brand advertising revenues were mainly from Sohu Video.

Sohu

- *Sohu Media Portal*

Revenues from Sohu Media Portal were $48.0 million and $140.1 million, respectively, for the three and nine months ended September 30, 2016, compared to $51.2 million and $148.6 million, respectively, for the corresponding periods in 2015. The decrease in revenues from Sohu Media Portal from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $3.2 million, representing a year-on-year decrease rate of 6%, and the decrease from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $8.5 million, representing a year-on-year decrease rate of 6%. The number of advertisers for Sohu Media Portal was 1,865 and 2,997, respectively, for the three and nine months ended September 30, 2016, compared to 1,597 and 2,987, respectively, for the corresponding periods in 2015. The average amount spent per advertiser was approximately $26,000 and $47,000, respectively, for the three months and nine months ended September 30, 2016, compared to $32,000 and $50,000, respectively, for the corresponding periods in 2015.

- *Sohu Video*

Revenues from Sohu Video were $25.4 million and $98.4 million, respectively, for the three and nine months ended September 30, 2016, compared to $55.4 million and $161.8 million, respectively, for the corresponding periods in 2015. The decrease in revenues from Sohu Video from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $30.0 million, representing a year-on-year decrease rate of 54%, and the decrease from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $63.4 million, representing a year-on-year decrease rate of 39%. Both the number of advertisers and the average amount spent per advertiser for the three and nine months ended September 30, 2016 decreased compared to the corresponding periods in 2015, which led to the decreases in revenues from Sohu Video. The number of advertisers for Sohu Video was 208 and 385, respectively, for the three and nine months ended September 30, 2016, compared to 291 and 492, respectively, for the corresponding periods in 2015. The average amount spent per advertiser was approximately $122,000 and $256,000, respectively, for the three and nine months ended September 30, 2016, compared to $190,000 and $329,000, respectively, for the corresponding periods in 2015.

- *Focus*

Revenues from Focus were $25.8 million and $79.6 million, respectively, for the three and nine months ended September 30, 2016, compared to $27.0 million and $83.6 million, respectively, for the corresponding periods in 2015. The decrease in revenues from Focus from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $1.2 million, representing a year-on-year decrease rate of 4%, and the decrease from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $4.0 million, representing a year-on-year decrease rate of 5%.

Revenues from Focus were generated through the Fixed Price model and the E-commerce model.

For the Fixed Price model, revenues were $10.9 million and $36.3 million, respectively, for the three and nine months ended September 30, 2016, compared to$12.7 million and $41.6 million, respectively, for the corresponding periods in 2015, representing a decrease of 1.8 million and $5.3 million, respectively, from the three months ended September 30, 2015 to the three months ended September 30, 2016 and from the nine months ended September 30, 2015 to the nine months ended September 30, 2016. In the currently soft Chinese macro economy, advertisers are less willing to adopt the Fixed Price model, which caused our revenues from this model to decrease.

For the E-commerce model, revenues were $14.9 million and $43.3 million, respectively, for the three and nine months ended September 30, 2016, generally stable compared to $14.4 million and $42.0 million, respectively, for the corresponding periods in 2015.

Changyou

17173.com Website

Revenues from the 17173.com Website were $11.7 million and $31.1 million, respectively, for the three and nine months ended September 30, 2016, compared to $17.9 million and $42.3 million, respectively, for the corresponding periods in 2015. The decrease in revenues from 17173.com Website for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was $6.2 million, representing a year-on-year decrease of 35%, and the decrease for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was $11.2 million, representing a year-on-year decrease of 26%. The decreases were primarily a result of a shifting in user activities from PC games to other games. The number of advertisers on the 17173.com Website was 106 and 163, respectively, for the three and nine months ended September 30, 2016, compared to 89 and 171, respectively, for the corresponding periods in 2015. The average amount spent per advertiser was approximately $110,000 and $191,000, respectively, for the three months and nine months ended September 30, 2016, compared to $201,000 and $247,000, respectively, for the corresponding periods in 2015.

Search and Search-related Revenues, Generated by Sogou

Revenues from search and search-related services were $150.7 million and $444.6 million, respectively, for the three and nine months ended September 30, 2016, compared to $147.9 million and $388.3 million, respectively, for the corresponding periods in 2015. The increase in revenues from search and search-related services from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $2.8 million, representing a year-on-year growth rate of 2%, and the increase from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $56.3 million, representing a year-on-year growth rate of 15%.

The increase in revenues from search and search-related services was mainly attributable to an increase in revenues from pay-for-click services.

Revenues from pay-for-click services accounted for approximately 83% and 82% of the total search and search-related revenues for the three and the nine months ended September 30, 2016, compared to 82% for both the three and the nine months ended September 30, 2015. The growth in revenues from pay-for-click services was principally attributable to an increase in the number of paid clicks, offsetting by depreciation of the RMB against the U.S. dollar. Paid clicks increased by approximately 13% and 27%, respectively, driven by growth in mobile search traffic, for the three and nine months ended September 30, 2016, compared to the corresponding periods in 2015.

Online Game Revenues Generated by Changyou

Revenues from the online game business were $98.6 million and $300.3 million, respectively, for the three and nine months ended September 30, 2016, compared to $152.5 million and $509.8 million, respectively, for the corresponding periods in 2015. The decrease was mainly due to the natural decline in revenues of TLBB and TLBB 3D, and a decrease in Web game revenue upon the completion of the sale of the 7Road business during the third quarter of 2015.

PC games and Mobile Games

Revenues from PC games were $70.4 million and $204.3 million, respectively, for the three and nine months ended September 30, 2016, compared to $100.1 million and 298.2 million, respectively, for the corresponding periods in 2015. The decrease in revenues from PC games from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $29.7 million, representing a year-on-year decrease rate of 30%, and the decrease from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $93.9 million, representing a year-on-year decrease rate of 31%. The year-on-year decrease in revenues from PC games was mainly due to the natural decline in revenues of TLBB, which is an older game and is the principal PC game operated by Changyou. For the three and nine months ended September 30, 2016, the PC game TLBB generated $56.0 million and $162.9 million, respectively, in revenues, accounting for approximately 57% and 54%, respectively, of Changyou’s online game revenues, approximately 41% and 41%, respectively, of Changyou’s total revenues and approximately 14% and 13%, respectively, of the Sohu Group’s total revenues.

Revenues from mobile games were $27.3 million and $92.5 million, respectively, for the three and nine months ended September 30, 2016, compared to $42.8 million and $167.3 million, respectively, for the corresponding periods in 2015. The decrease in revenues from mobile games from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $15.5 million, representing a year-on-year decrease rate of 36%, and the decrease from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $74.8 million, representing a year-on-year decrease rate of 45%. The decrease was mainly due to revenues from Changyou's mobile game TLBB 3D, which was launched in the fourth quarter of 2014.

The following table sets forth certain operating data for Changyou's PC games and mobile games for the periods indicated:

Average Monthly Active Accounts (1)	**Three Months Ended March 31**		**Three Months Ended June 30**		**Three Months Ended September 30**	
(in millions)	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games
2015	4.9	4.4	4.4	5.7	4.1	2.4
2016	3.0	3.2	2.9	2.4	2.7	2.8

Quarterly Aggregate Active Paying Accounts (2)	**Three Months Ended March 31**		**Three Months Ended June 30**		**Three Months Ended September 30**	
(in millions)	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games
2015	1.1	0.9	1.1	1.4	1.3	0.6
2016	1.1	0.8	1.0	0.6	1.0	0.7

(1) Average Monthly Active Accounts for a given period refers to the number of registered accounts that were logged in to these games at least once during the period.

(2) Quarterly Aggregate Active Paying Accounts for a given quarter refers to the number of accounts from which game points were used at least once during the quarter.

Web Games

Revenues from Web games were $0.8 million and $3.5 million, respectively, for the three and nine months ended September 30, 2016, compared to $9.5 million and $44.3 million, respectively, for the corresponding periods in 2015. The decrease in Web games revenues was mainly due to a decrease in Web game revenues upon the completion of the sale of the 7Road business during the third quarter of 2015.

Other Revenues

Revenues from other services were $50.4 million and $144.5 million, respectively, for the three and nine months ended September 30, 2016, compared to $70.1 million and $136.7 million, respectively, for the corresponding periods in 2015. The decrease for the three months ended September 30, 2016 was mainly attributable to a $28.7 million decrease in revenues from the film business, offset by a $12.1 million increase in revenues from the cinema advertisement business and interactive broadcasting services. The increase for the nine months ended September 30, 2016 was mainly attributable to a $28.7 million increase in revenues from the cinema advertisement business and interactive broadcasting services, offset by a $22.8 million decrease in revenues from the film business. In the third quarter of 2015, revenue of $28.7 million was recognized for the film "Jian Bing Man," which was broadcasted in that quarter.

Costs and Expenses

Cost of Revenues

The following table presents our cost of revenues by source and by proportion for the periods indicated (in thousands, except percentages)

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	Three Months Ended September 30,						Nine Months Ended September 30,					
	2015		2016		2016 vs 2015		2015		2016		2016 vs 2015	
	Amount	Percentage of the total cost	Amount	Percentage of the total cost	Amount	Incremental ratio	Amount	Percentage of the total cost	Amount	Percentage of the total cost	Amount	Incremental ratio
Cost of revenues:												
Online advertising:												
Brand advertising	$ 91,163	43%	$102,137	46%	$ 10,974	12%	$295,562	45%	$281,427	45%	$(14,135)	(5)%
Search and search-related	62,365	29%	76,457	34%	14,092	23%	170,836	26%	210,547	34%	39,711	23%
Subtotal of cost of online advertising revenues	153,528	72%	178,594	80%	25,066	16%	466,398	71%	491,974	79%	25,576	5%
Online game	34,635	16%	23,719	11%	(10,916)	(32)%	128,049	19%	75,232	12%	(52,817)	(41)%
Others	25,996	12%	20,571	9%	(5,425)	(21)%	63,066	10%	60,783	9%	(2,283)	(4)%
Total cost of revenues	$214,159	100%	$222,884	100%	$ 8,725	4%	$657,513	100%	$627,989	100%	$(29,524)	(4)%

Cost of Online Advertising Revenues

Cost of online advertising revenues was $178.6 million and $492.0 million, respectively, for the three and nine months ended September 30, 2016, compared to $153.5 million and $466.4 million, respectively, for the corresponding periods in 2015. The increase in cost of online advertising revenues from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $25.1 million, representing a year-on-year growth rate of 16%, and the increase from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $25.6 million, representing a year-on-year growth rate of 5%.

Cost of Brand Advertising Revenues

Cost of brand advertising revenues mainly consists of content and license costs, bandwidth leasing costs, salary and benefits expenses, and depreciation expenses.

Cost of brand advertising revenues was $102.1 million and $281.4 million, respectively, for the three and nine months ended September 30, 2016, compared to $91.2 million and $295.6 million, respectively, for the corresponding periods in 2015.

The increase in cost of brand advertising revenues from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $11.0 million, representing a year-on-year increase rate of 12%. The increase mainly consisted of a $18.0 million increase in content and license costs, offset by a $6.0 million decrease in bandwidth leasing costs.

The decrease in cost of brand advertising revenues from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $14.1 million, representing a year-on-year decrease rate of 5%. The decrease mainly consisted of a $14.4 million decrease in bandwidth leasing costs.

Our brand advertising gross margin was 8% and 19%, respectively, for the three and nine months ended September 30, 2016, as compared to 40% and 32%, respectively, for the corresponding periods in 2015. The year-over-year decreases in our brand advertising gross margin were mainly due to decreased video revenues.

Cost of Search and Search-related Revenues

Cost of search and search-related revenues mainly consists of traffic acquisition costs, bandwidth leasing costs, depreciation expenses, as well as salary and benefits expenses.

Cost of search and search-related revenues were $76.5 million and $210.5 million, respectively, for the three and nine months ended September 30, 2016, compared to $62.4 million and $170.8 million, respectively, for the corresponding periods in 2015.

The increase in cost of search and search-related revenues from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $14.1 million. The increase mainly consisted of a $10.7 million increase in traffic acquisition costs and a $2.5 million increase in bandwidth leasing costs.

The increase in cost of search and search-related revenues from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $39.7 million. The increase mainly consisted of a $34.4 million increase in traffic acquisition costs and a $5.1 million increase in bandwidth leasing costs.

Our search and search-related gross margin was 49% and 53%, respectively, for the three and nine months ended September 30, 2016, as compared to 58% and 56%, respectively, for the corresponding periods in 2015. The decreases in our search and search-related gross margin were mainly due to higher traffic acquisition costs as a percentage of search and search-related revenues.

Cost of Online Game Revenues

Cost of online game revenues mainly consists of revenue-sharing payments, salary and benefits expense, bandwidth leasing costs, content and license costs, amortization and depreciation expenses, and other direct costs.

Cost of online game revenues was $23.7 million and $75.2 million, respectively, for the three and nine months ended September 30, 2016, compared to $34.6 million and $128.0 million, respectively, for the corresponding periods in 2015.

The decrease in cost of online game revenues from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $10.9 million. The decrease included an $4.6 million decrease in revenue-sharing payments to mobile APP stores, a $1.3 million decrease in impairment provision for operating rights for licensed games with technological feasibility, a $1.1 million decrease in salary and benefits expenses, and a $1.0 million decrease in bandwidth leasing costs.

The decrease in cost of online game revenues from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $52.8 million. The decrease included a $32.1 million decrease in revenue-sharing payments to mobile APP stores, a $5.0 million decrease in salary and benefits expenses, a $3.5 million decrease in impairment provision for operating rights for licensed games with technological feasibility, a $3.2 million decrease in depreciation and amortization expenses, and a $2.9 million decrease in bandwidth leasing costs.

Our online game gross margin was 76% and 75%, respectively, for the three and nine months ended September 30, 2016, compared to 77% and 75%, respectively, for the corresponding periods in 2015.

Cost of Other Revenues

Cost of revenues for other services was $20.6 million and $60.8 million, respectively, for the three and nine months ended September 30, 2016, compared to $26.0 million and $63.1 million, respectively, for the corresponding periods in 2015. The decreases were mainly due to $5.7 million in film production costs for "Jian Bing Man" that were recognized concurrently with revenue in the third quarter of 2015.

Operating Expenses

The following table presents our operating expenses by nature and by proportion for the periods indicated (in thousands, except percentages):

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2015		2016		2016 vs 2015		2015		2016		2016 vs 2015	
	Amount	Percentage of the total expense	Amount	Percentage of the total expense	Amount	Incremental ratio	Amount	Percentage of the total expense	Amount	Percentage of the total expense	Amount	Incremental ratio
Operating expenses:												
Product development	$ 92,779	35%	$ 90,007	38%	$ (2,772)	(3)%	$295,741	40%	$261,645	39%	$(34,096)	(12)%
Sales and marketing	98,596	37%	110,584	46%	11,988	12%	285,701	38%	318,597	47%	32,896	12%
General and administrative	33,330	13%	38,670	16%	5,340	16%	128,214	17%	95,927	14%	(32,287)	(25)%
Goodwill impairment and impairment of intangible assets acquired as part of a business acquisition	40,324	15%	0	0%	(40,324)	(100)%	40,324	5%	0	0%	(40,324)	(100)%
Total operating expenses	$265,029	100%	$239,261	100%	$(25,768)	(10)%	$749,980	100%	$676,169	100%	$(73,811)	(10)%

Product Development Expenses

Product development expenses mainly consist of salary and benefits expenses, technical service fees, depreciation and amortization expenses, stock-based compensation, content and license expenses, and facilities expenses.

Product development expenses were $90.0 million and $261.6 million, respectively, for the three and nine months ended September 30, 2016, compared to $92.8 million and $295.7 million, respectively, for the corresponding periods in 2015.

The decrease in product development expenses from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $2.8 million. The decrease mainly consisted of a $4.9 million decrease in salary and benefits expense, and a $3.7 million decrease in impairment provision for operating rights for licensed games with technological feasibility, offset by a $5.4 million increase in share-based compensation expense.

The decrease in product development expenses from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $34.1 million. The decrease mainly consisted of a $21.7 million decrease in salary and benefits expense, a $6.8 million decrease in impairment provision for operating rights for licensed games with technological feasibility, a $3.9 million decrease in share-based compensation expense, and a $3.5 million decrease in depreciation and amortization expense, offset by a $3.1 million increase in technical service fees.

Sales and Marketing Expenses

Sales and marketing expenses mainly consist of advertising and promotional expenditures, salary and benefits expenses, travel expenses, and facility expenses.

Sales and marketing expenses were $110.6 million and $318.6 million, respectively, for the three and nine months ended September 30, 2016, compared to $98.6 million and $285.7 million, respectively, for the corresponding periods in 2015.

The increase in sales and marketing expenses from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $12.0 million. The increase mainly consisted of a $19.0 million increase in advertising and promotional expenditures, offset by a $6.7 million decrease in salary and benefits expenses.

The increase in sales and marketing expenses from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $32.9 million. The increase mainly consisted of a $57.9 million increase in advertising and promotional expenditures, offset by a $20.4 million decrease in salary and benefits expenses, a $1.6 million decrease in content and license expenses, a $1.2 million decrease in depreciation and amortization expense, and a $0.6 million decrease in share-based compensation expense.

General and Administrative Expenses

General and administrative expenses mainly consist of salary and benefits expenses, professional service fees, share-based compensation expense, facility and office expenses, depreciation and amortization expenses, and travel expenses.

General and administrative expenses were $38.7 million and $95.9 million, respectively, for the three and nine months ended September 30, 2016, compared to $33.3 million and $128.2 million, respectively, for the corresponding periods in 2015.

The increase in general and administrative expenses from the three months ended September 30, 2015 to the three months ended September 30, 2016 was $5.3 million. The increase mainly consisted of a $9.6 million increase in share-based compensation expense, offset by a $2.2 million decrease in facilities expenses, and a $1.8 million decrease in salary and benefits expenses.

The decrease in general and administrative expenses from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 was $32.3 million. The decrease mainly consisted of a $8.1 million decrease in salary and benefits expenses, a $7.1 million decrease in share-based compensation expense, a $7.0 million decrease in professional service fees, a $5.2 million decrease in facilities expenses, a $2.9 million decrease in depreciation and amortization expenses and a $1.9 million decrease in travel expenses.

Goodwill Impairment and Impairment of Intangibles Acquired as Part of a Business Acquisition

For the three and nine months ended September 30, 2016, there was no goodwill impairment or impairment of intangibles acquired as part of business acquisitions.

In the third quarter of 2015, we recognized $40.3 million of goodwill impairment and impairment of intangibles acquired as part of a business acquisition. This $40.3 million impairment loss consisted primarily of a $29.6 million goodwill impairment loss and an $8.9 million intangible assets impairment loss related to the MoboTap business, as Changyou management determined that MoboTap was unable to provide expected synergies with Changyou's platform business.

Share-based Compensation Expense

Share-based compensation expense was recognized in costs and expenses for the three and nine months ended September 30, 2015 and September 30, 2016, respectively, as follows (in thousands):

Share-based compensation expense	Three Months Ended September 30, 2015	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2016
Cost of revenues	$ 99	$ 295	$ 957	$ 294
Product development expenses (1)	(1,331)	4,105	9,680	5,801
Sales and marketing expenses	466	752	1,573	927
General and administrative expenses (1)	(1,536)	8,018	16,255	9,125
	$ (2,302)	$ 13,170	$ 28,465	$ 16,147

Share-based compensation expense recognized for share awards of Sohu (excluding Sohu Video), Sogou, Changyou and Sohu Video was as follows (in thousands):

Share-based compensation expense	Three Months Ended September 30, 2015	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2016
For Sohu (excluding Sohu Video) share-based awards	$ 2,294	$ 5,639	$ 15,031	$ 4,749
For Sogou share-based awards (1) (2)	(1,230)	180	5,706	2,505
For Changyou share-based awards (1)	(3,465)	7,202	7,529	9,340
For Sohu Video share-based awards (1)	99	149	199	(447)
	$ (2,302)	$ 13,170	$ 28,465	$ 16,147

Note (1): The negative amount resulted from re-measured compensation expense based on the then-current fair value of the awards on each reporting date as well as a true-up of share-based compensation expense for forfeited share options and restricted share units for Sogou and Changyou share-based awards.

Note (2): Compensation expense for Sogou share-based awards includes compensation expense for Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search-related businesses.

As of September 30, 2016, unrecognized share-based compensation expense for Sohu (excluding Sohu Video), Sogou and Changyou share-based awards was as follows (in thousands):

Unrecognized share-based compensation expense	As of September 30, 2016
For Sohu (excluding Sohu Video) share-based awards	$ 681
For Sogou share-based awards (3)	7,529
For Changyou share-based awards	86
	$ 8,296

Note (3): Includes the unrecognized compensation expense for employees who transferred from Tencent with Soso search-related businesses.

Operating (Loss) / Profit

For the three and nine months ended September 30, 2016, we had an operating loss of $51.6 million and $65.5 million, respectively, compared to an operating profit of $42.9 million and $63.5 million, respectively, for the corresponding periods in 2015.

Other Income / (Expense)

We had other income of $3.7 million and other expense of $17.0 million, respectively, for the three and nine months ended September 30, 2016, compared to other income of $70.2 million and $72.9 million, respectively, for the corresponding periods in 2015. The changes were mainly due to a disposal gain of $55.1 million recognized from Changyou's sale of the 7Road business and certain Changyou subsidiaries during the third quarter of 2015, and a $27.8 million one-time expense recognized in the second quarter of 2016 related to a donation by Sogou to Tsinghua University related to setting up a joint research institute focusing on artificial intelligence technology.

Net Interest Income

Net interest income was $6.1 million and $16.3 million, respectively, for the three and nine months ended September 30, 2016, compared to $5.2 million and $17.5 million, respectively, for the corresponding periods in 2015.

Income Tax Expense

Income tax expense was $1.0 million and $15.3 million, respectively, for the three and nine months ended September 30, 2016, compared to $29.5 million and $57.3 million, respectively, for the corresponding periods in 2015.

The decrease in income tax expense was mainly due to Changyou having recorded an income tax benefit of $0.5 million and income tax expense of $12.2 million, respectively, for the three and nine months ended September 30, 2016, compared to income tax expense of $25.8 million and $45.7 million, respectively, for the corresponding periods of 2015. The income tax benefit recorded in the third quarter of 2016 was a result of a reversal of income tax expense of $10.6 million for the preferential tax rate that one of Changyou's subsidiaries received as a 2015 KNSE for the third quarter of 2016.

Net (Loss) / Income

For the three and nine months ended September 30, 2016, we had net loss of $42.0 million and $77.9 million, respectively, compared to net income of $93.2 million and $100.1 million, respectively, for the corresponding periods in 2015.

Net (Loss) / Income Attributable to Noncontrolling Interest

Net loss attributable to noncontrolling interest was $32.8 million and $80.2 million, respectively, for the three and nine months ended September 30, 2016, compared to net income attributable to noncontrolling interest of $42.1 million and $107.3 million, respectively, for the corresponding periods in 2015.

Deemed Dividend to Noncontrolling Sogou Series A Preferred Shareholders

Deemed dividends to noncontrolling Sogou Series A Preferred shareholders were nil for both the three months and the nine months ended September 30, 2016, compared to $11.9 million for both the three months and the nine months ended September 30, 2015.

In September 2015, Sogou purchased Sogou Series A Preferred Shares from its noncontrolling shareholder, which gave rise to deemed dividends of $11.9 million. The deemed dividends were deemed to have been contributed by Sohu.com Inc., as a holder of ordinary shares of Sogou, and represented a portion of the difference between the amount Sogou paid to Photon for the Series A Preferred Shares and the carrying amount of these Series A Preferred Shares in the Group's consolidated financial statements.

Net (Loss) / Income Attributable to Sohu.com Inc.

As a result of the foregoing, we had net loss attributable to Sohu.com Inc. of $74.8 million and $158.1 million for the three and nine months ended September 30, 2016, compared to a net income attributable to Sohu.com Inc. of $39.1 million and a net loss attributable to Sohu.com Inc. of $19.2 million, respectively, for the corresponding periods in 2015.

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LIQUIDITY AND CAPITAL RESOURCES

Resources Analysis

Liquidity Sources and Balances

Our principal sources of liquidity are cash and cash equivalents, short-term investments, time deposits, and cash flows generated from our operations. Cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash. Short-term investments comprise investment instruments issued by commercial banks in China, with a variable interest rate indexed to performance of underlying assets and maturity dates within one year. Time deposits comprise deposits placed with banks with original maturities of more than three months.

As of September 30, 2016, we had cash and cash equivalents of approximately $1.09 billion, and short-term investments of $264.1 million. Of our cash and cash equivalents, $439.5 million was held in financial institutions inside Mainland China and $652.6 million was held in financial institutions outside of Mainland China. Our VIEs held $141.8 million of our cash and cash equivalents and $950.3 million was held outside of our VIEs.

We believe our current liquidity and capital resources are sufficient to meet anticipated working capital needs (net cash used in operating activities), commitments, capital expenditures, and investment activities over the next twelve months. We may, however, require additional cash resources due to changes in business conditions and other future developments, or changes in general economic conditions.

See "Restrictions and Limitations on Cash Available to Sohu.com Inc." below and Item 3 "Quantitative and Qualitative Disclosure About Market Risk - Foreign Currency Exchange Rate Risk."

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2016 (in thousands):

As of September 30, 2016	
Purchase of content and services – video	$196,173
Purchase of cinema advertisement slot rights	109,550
Purchase of bandwidth	57,881
Operating lease obligations	25,692
Expenditures for operating rights for licensed games with technological feasibility - PC games	15,750
Purchase of content and services – others	9,884
Expenditures for operating rights for licensed games with technological feasibility – mobile games	3,866
Purchase of fixed assets	2,261
Expenditures for titles in game development	1,035
Fees for operating rights for licensed games in development – mobile games	589
Others	3,819
Total	$426,500

Cash Generating Ability

Our cash flows are summarized below (in thousands):

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2016
Net cash provided by operating activities	$ 357,463	$ 214,224
Net cash used in investing activities	(108,492)	(9,046)
Net cash used in financing activities	(43,146)	(327,591)
Effect of exchange rate change on cash and cash equivalents	(8,220)	(20,427)
Reclassification of cash and cash equivalents to assets held for sale	(66)	(10,280)
Net increase /(decrease) in cash and cash equivalents	197,539	(153,120)
Cash and cash equivalents at beginning of period	876,340	1,245,205
Cash and cash equivalents at end of period	$ 1,073,879	$ 1,092,085

Net Cash Provided by Operating Activities

For the nine months ended September 30, 2016, $214.2 million net cash provided by operating activities was primarily attributable to our net loss of $77.9 million, adjusted by (i) the add back of non-cash items consisting of $159.5 million in depreciation and amortization, $16.1 million share-based compensation expense, $6.0 million in impairment of intangible assets, $4.3 million in provision for allowance for doubtful accounts, and $0.7 million other items, (ii) offset by $7.7 million in change in fair value of short-term investments. The increase in cash from $113.2 million working capital items is also included in operating cash flow.

For the nine months ended September 30, 2015, $357.5 million net cash provided by operating activities was primarily attributable to our net income of $100.1 million, adjusted by (i) the add back of non-cash items consisting of $190.3 million depreciation and amortization expense, $40.3 million goodwill impairment and impairment of intangible assets acquired as part of a business acquisition, $28.5 million share-based compensation expense, $12.0 million impairment of intangible assets, $3.8 million investment loss from an equity investment, and $3.9 million other items, (ii) offset by $55.1 million of disposal gain from the sale of the 7Road business and certain Changyou subsidiaries, $13.0 million disposal gain from sale of investments, and a $1.1 million change in the fair value of short-term investments. An increase in cash from $47.8 million of working capital items is also included in operating cash flow.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2016, $9.0 million net cash used in investing activities was primarily attributable to (i) $282.0 million used in purchase of financial instruments, $224.5 million used in purchase of fixed assets and intangible assets, $18.1 million used in a matching loan from Changyou to SoEasy, and $12.9 million used in the purchase of long-term investments, (ii) offset by $295.6 million proceeds from financial instruments, $225.5 million withdrawal of restricted time deposits originally used as collateral for Changyou loans from offshore banks, $3.6 million from loan repayment by a third party to Changyou, and $3.8 million cash received from other investing activities.

For the nine months ended September 30, 2015, $108.5 million net cash used in investing activities was primarily attributable to (i) $619.0 million used in the purchase of financial instruments, $190.7 million used in the purchase of fixed assets and intangible assets, $37.8 million used in the purchase of long-term investments (mainly composed of Sohu’s investment of $16.3 million in SoEasy Internet Finance Group Limited in April 2015 and Sogou’s investment of $12.0 million in Zhihu Technology Limited in September 2015), $20.0 million in loans to a third party, and funds of $13.1 million deposited by Changyou, (ii) offset by $542.4 million proceeds from financial instruments, $183.1 million in consideration received from Changyou’s sale of the 7Road business (net of cash in 7Road upon its disposition) and certain Changyou subsidiaries, the withdrawal of $30.8 million in restricted time deposits originally used as collateral for Changyou loans from offshore banks, $11.9 million in consideration received from the sale of an equity investment, and $3.9 million in proceeds from other investing activities.

Net Cash Used in Financing Activities

For the nine months ended September 30, 2016, $327.6 million net cash used in financing activities was primarily attributable to (i) $344.5 million used in repayments of Changyou loans from offshore banks, (ii) offset by $16.9 million Changyou received from the matching loan with SoEasy.

For the nine months ended September 30, 2015, $43.1 net cash used in financing activities was primarily attributable to (i) $25.5 million used for Changyou’s repayment of loans from offshore banks, $21.0 million used for Sogou’s repurchase of Series A Preferred Shares of Sogou from Photon, and $14.5 million used for Changyou’s repurchase of its ADSs, offset by (ii) $12.9 million Changyou received from the matching loan with SoEasy, $2.1 million received from the exercise of share-based awards, and $2.9 million in proceeds from other financing activities.

Restrictions and Limitations on Cash Available to Sohu.com Inc.

To fund any cash requirements it may have, Sohu.com Inc. may need to rely on dividends and other distributions on equity paid by our wholly-owned subsidiary Sohu.com Limited or our majority-owned subsidiary Changyou.com Limited. Since substantially all of our operations are conducted through our indirect China-based subsidiaries and VIEs, Sohu.com Limited and Changyou.com Limited may need to rely on dividends, loans or advances made by our PRC subsidiaries and VIEs in order to make dividends and other distributions to us.

The ability of Sohu.com Limited and Changyou.com Limited to receive dividends and distributions from our China-based subsidiaries and VIEs, and the amount of cash available for distribution to, and use by, Sohu.com Inc., are subject to certain restrictions and limitations related to PRC law, our VIE structure and U.S. corporate income tax. We do not expect any of such restrictions or taxes to have a material impact on our ability to meet our cash obligations.

PRC Regulations Related to Profit Appropriation, Withholding Tax on Dividends and Foreign Currency Exchange

Regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Our China-based WFOEs are also required to set aside each year to their general reserves at least 10% of their after-tax profit based on PRC accounting standards, until the cumulative amount reaches 50% of their paid-in capital. These reserves may not be distributed as cash dividends, or as loans or advances. Our WFOEs may also allocate a portion of their after-tax profits, at the discretion of their Boards of Directors, to their staff welfare and bonus funds. Any amounts so allocated may not be distributed to Sohu.com Limited or Changyou.com Limited and, accordingly, would not be available for distribution to Sohu.com Inc.

The CIT Law imposes a 10% withholding income tax on 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 withholding tax at a rate of 10%.

Under regulations of the PRC State Administration of Foreign Exchange ("SAFE"), the RMB is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of Mainland China, unless prior approval of the SAFE is obtained and prior registration with the SAFE is made.

PRC Restrictions Related to Our VIE Structure

Substantially all of Changyou.com Limited's operations are conducted through its VIEs, which generate most of Changyou's online game revenues. Although Changyou's subsidiaries received or absorbed a majority of the VIEs' profits or losses pursuant to contractual agreements between the VIEs and Changyou's PRC subsidiaries providing for payments to the subsidiaries in return for services provided to the VIEs by the PRC subsidiaries, significant cash balances remained in Changyou's VIEs as of June 30, 2016. As Changyou's VIEs are not owned by Changyou's PRC subsidiaries, the VIEs are not able to make dividend payments to the subsidiaries. Therefore, in order for Sohu.com Inc. or our subsidiaries outside of Mainland China to receive any dividends, loans or advances from Changyou's PRC subsidiaries, we will need to rely on these contractual payments made by Changyou's VIEs to Changyou's PRC subsidiaries. Depending on the nature of services provided by Changyou's PRC subsidiaries to their corresponding VIEs, certain of these payments will subject to PRC taxes, such as VAT, which will effectively reduce the amount that the PRC subsidiary receives from its corresponding VIE. In addition, the PRC government could impose restrictions on such payments or change the tax rates applicable to such payments.

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 portions of its U.S. taxable income, such as Subpart F income or a dividend, are determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may be able to claim foreign tax credits to offset its U.S. income tax liabilities. Any remaining liabilities are accrued in the Company's consolidated statements of comprehensive income and estimated tax payments are made when required by U.S. law.

In accordance with U.S. GAAP, we do not provide for U.S. federal income taxes or tax benefits on the undistributed earnings or losses of our non-U.S. subsidiaries or consolidated VIEs because, for the foreseeable future, we do not have the intention to repatriate those undistributed earnings or losses to the U.S. (except that, under certain circumstances, we may repatriate to the U.S. income that was previously included in our income for U.S. corporate income tax purposes). However, certain activities conducted in the PRC may give rise to U.S. corporate income tax, even if there are no distributions to Sohu.com Inc. U.S. corporate income taxes would be imposed on Sohu.com Inc. when its subsidiaries that are controlled foreign corporations ("CFCs") generate income that is subject to Subpart F of the U.S. Internal Revenue Code ("Subpart F"). Generally, passive income, such as rents, royalties, interest, dividends, and gains from disposal of our investments is among the types of income subject to taxation under Subpart F. Any income taxable under Subpart F is taxable in the U.S. at federal corporate income tax rates of up to 35%. Subpart F income also includes certain income from intercompany transactions between Sohu.com Inc.'s non-U.S. subsidiaries and VIEs and Changyou's non-U.S. subsidiaries and VIEs, or where Sohu.com Inc.'s non-U.S. subsidiaries or VIEs make an "investment in U.S. property," such as holding the stock in, or making a loan to, a U.S. corporation. Under a provision of the U.S. tax code commonly referred to as the CFC look-through rule, Sohu.com Inc. has not had to treat dividends received by its CFC subsidiaries as Subpart F income includible in Sohu.com Inc.'s taxable income in the U.S. The CFC look-through rule, which is currently scheduled to expire for taxable years beginning after December 31, 2019, has been extended several times by the U.S. Congress. Unless further extended, the CFC look-through rule will be available for Sohu.com Inc.'s CFC subsidiaries and their VIEs only through their taxable years ending November 30, 2020.

Dividend Policy

The Sohu Group intends to retain all available funds and any future earnings for use in the operation and expansion of its own business, and does not anticipate paying any cash dividends on Sohu.com Inc.'s common stock or causing its wholly-owned subsidiary Sohu.com Limited to any pay dividends to Sohu.com Inc. for the foreseeable future. Future cash dividends distributed by Sohu.com Inc. or Sohu.com Limited, if any, will be declared at the discretion of Sohu.com Inc.'s Board of Directors and will depend upon future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our Board of Directors may deem relevant.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties, except for a $9.0 million restricted time deposit acting as collateral for credit facilities provided by a bank to certain Sogou employees. We are not subject to any additional potential payments other than the restricted time deposit amount, and believe that the fair value of our guarantee liability is immaterial. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or product development services with us.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

Revenue from Contracts with Customers. In May 2014, the FASB issued ASU No. 2014-09, ''Revenue from Contracts with Customers (Topic 606).'' This guidance supersedes current guidance on revenue recognition in Topic 605, ''Revenue Recognition.'' In addition, there are disclosure requirements related to the nature, amount, timing, and uncertainty of revenue recognition. In August 2015, the FASB issued ASU No.2015-14 to defer the effective date of ASU No. 2014-09 for all entities by one year. For public business entities that follow U.S. GAAP, the deferral results in the new revenue standard are being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for interim and annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities . On January 5, 2016, the FASB issued ASU 2016-01 ("ASU 2016-01"), Recognition and Measurement of Financial Assets and Financial Liabilities, which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This amendment requires all equity investments to be measured at fair value, with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). This standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are evaluating the impact of adopting this standard on our consolidated financial statements.

Leases. On February 25, 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), Leases. ASU 2016-02 specifies the accounting for leases. For operating leases, ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. In addition, this standard requires both lessees and lessors to disclose certain key information about lease transactions. ASU 2016-02 is effective for public companies for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

Compensation – Stock Compensation. On March 30, 2016, the FASB issued ASU 2016-09 ("ASU 2016-09"), Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; (c) classification on the statement of cash flows; and (d) accounting for forfeitures of share-based payments. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We are evaluating the impact the adoption of ASU 2016-09 will have on our consolidated financial statements.

Financial Instruments-Credit Losses. In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments-Credit Losses (Topic 326)* , which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost **.** This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements and related disclosures.

Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments,* which clarifies the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact that the standard will have on its consolidated financial statements and related disclosures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

FOREIGN CURRENCY EXCHANGE RATE RISK

While our reporting currency is the U.S. dollar, to date the majority of our revenues and costs are denominated in RMB and a significant portion of our assets and liabilities are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollar and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues and assets as expressed in our U.S. dollar financial statements will decline. We do not hold any derivative or other financial instruments that expose us to substantial market risk.

The RMB is currently freely convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment. In addition, commencing on July 21, 2005, China reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Under the managed floating exchange rate regime, the RMB is no longer pegged to the U.S. dollar. The exchange rate of the RMB against the U.S. dollar was adjusted to RMB8.11 per U.S. dollar as of July 21, 2005, representing an appreciation of about 2%. The People’s Bank of China will announce the closing prices of foreign currencies such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each business day, and will make such prices the central parity for trading against the RMB on the following business day. On May 19, 2007, the People’s Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.3% to 0.5%. While the international reactions to the RMB revaluation and widening of the RMB’s daily trading band have generally been positive, with the increased floating range of the RMB’s value against foreign currencies, the RMB may appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued. On June 19, 2010, the People’s Bank of China announced that it has decided to proceed further with the reform of the RMB exchange rate regime to enhance the flexibility of the RMB exchange rate and that emphasis would be placed on reflecting market supply and demand with reference to a basket of currencies. While so indicating its intention to make the RMB’s exchange rate more flexible, the People’s Bank of China ruled out any sharp fluctuations in the currency or a one-off adjustment. On April 16, 2012, the People’s Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.5% to 1%. On March 17, 2014, the People’s Bank of China announced a policy to further expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market to 2%. In the long term, the RMB may appreciate or depreciate more significantly in value against the U.S. dollar or other foreign currencies, depending on the market supply and demand with reference to a basket of currencies.

To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure. Accordingly, we may incur economic losses in the future due to foreign exchange rate fluctuations, which could have a negative impact on our financial condition and results of operations.

The following table sets forth a summary of our foreign currency sensitive financial instruments as of September 30, 2016. These financial instruments are recorded at their fair value.

	Denominated in (in thousands)				
	US$	**RMB**	**HK$**	**Others**	**Total**
Cash and cash equivalents	$652,198	$435,946	$2,427	$1,514	$1,092,085
Short-term investments	0	264,109	0	0	264,109
Accounts receivable	5,192	198,584	972	0	204,748
Prepaid and other current assets	7,658	266,464	17	562	274,701
Available-for-sale equity securities	12,180	0	0	0	12,180
Restricted time deposits	9,240	30	0	0	9,270
Liabilities held for sale	0	3,236	0	0	3,236
Other current liabilities	41,798	933,634	26	339	975,797
Long-term accounts payable	0	17,272	0	0	17,272

INTEREST RATE RISK

The basic objectives of our investment program are to protect the invested funds from excessive risk and to provide for liquidity that is sufficient to meet operating and investment cash requirements. Under the investment policy, our excess cash is invested in high-quality securities which are limited as to length of time to maturity and the amount of credit exposure.

Our exposure to interest rate risk primarily relates to the interest income generated from excess cash invested in demand deposits, and interest expense generated from loans to Changyou from offshore banks. We have not used derivative financial instruments in our investment portfolio in order to reduce this risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates.

INFLATION RATE RISK

According to the National Bureau of Statistics of China, the consumer price index grew 2.0% in the nine months ended September 30, 2016, compared to an increase of 1.4% in the nine months ended September 30, 2015. The rate of inflation in the nine months ended September 30, 2016 was higher when compared to the corresponding period in 2015, which could have a material adverse effect on our business.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Acting Chief Financial Officer, after evaluating the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report (the “Evaluation Date”), have concluded that as of the Evaluation Date our disclosure controls and procedures were effective and designed to ensure that all material information relating to Sohu.com Inc. required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

During the period covered by this quarterly report, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material legal proceedings commenced by us or against us or, to our knowledge, threatened against us during the period covered by this report. From time to time we become subject to legal proceedings and claims in the ordinary course of our business. Such legal proceedings or claims, even if not meritorious, could result in the expenditure of significant financial and management resources.

ITEM 1A. RISK FACTORS

There are no material changes or updates to the risk factors previously disclosed in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016 filed with the SEC on August 8, 2016 and Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 26, 2016.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

USE OF PROCEEDS

On July 17, 2000, Sohu.com Inc. completed an underwritten initial public offering of its common stock pursuant to a Registration Statement on Form S-1 (SEC file No. 333-96137), which became effective on July 10, 2000. Public trading of the common stock offered in the initial public offering commenced on July 12, 2000. Sohu.com Inc. sold an aggregate of 4,600,000 shares of common stock in the offering at a price to the public of $13 per share, resulting in gross proceeds of $59.8 million. Sohu.com Inc.’s net proceeds, after deduction of the underwriting discount of $4.2 million and other offering expenses of $3.2 million, were approximately $52.4 million. All shares sold in the offering were sold by Sohu.com Inc.

During the nine months ended September 30, 2016, Sohu.com Inc. did not use any proceeds from the offering. The remaining net proceeds from the offering have been invested in cash and cash equivalents. The use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus contained in the Registration Statement on Form S-1 described above.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Please see the Exhibit Index attached hereto.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 4, 2016

SOHU.COM INC.

By: /s/ Joanna Lv
Joanna Lv
Acting Chief Financial Officer

Sohu.com Inc.

Quarterly Report on Form 10-Q for Quarter Ended September 30, 2016

EXHIBITS INDEX

10.1 (1)	English Translation of Loan Agreement, dated as of October 24, 2016, between AmazGame and Sohu Media.
10.2 (1)	Share Pledge Agreement, dated as of October 24, 2016, between Sohu Game and Changyou.
31.1	Rule 13a-14(a)/15d-14(a) Certification of Charles Zhang
31.2	Rule 13a-14(a)/15d-14(a) Certification of Joanna Lv
32.1	Section 1350 Certification of Charles Zhang
32.2	Section 1350 Certification of Joanna Lv
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of December 31, 2015 and September 30, 2016 ; (ii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2016; (iii) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2016; (iv) Condensed Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2015 and 2016; and (v) Notes to Condensed Consolidated Financial Statements, tagged using four different levels of detail.

(1) Incorporated herein by reference to the registrant’s Current Report on Form 8-K filed on October 24, 2016.

Exhibit 31.1

I, Charles Zhang, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sohu.com Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 4, 2016

/s/ Charles Zhang

Charles Zhang

Chief Executive Officer and Chairman of the Board of Directors

Exhibit 31.2

I, Joanna Lv, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sohu.com Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent function):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: November 4, 2016

/s/ Joanna Lv

Joanna Lv
Acting Chief Financial Officer

Exhibit 32.1

SOHU.COM INC.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sohu.com Inc. (the "Company") on Form 10-Q for the period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of September 30, 2016 and results of operations of the Company for the three months ended September 30, 2016.

/s/ Charles Zhang

Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors
November 4, 2016

Exhibit 32.2

SOHU.COM INC.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sohu.com Inc. (the "Company") on Form 10-Q for the period ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joanna Lv, Acting Chief Financial Officer of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of September 30, 2016 and results of operations of the Company for the three months ended September 30, 2016.

/s/ Joanna Lv

Joanna Lv, Acting Chief Financial Officer
November 4, 2016