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 MARCH 31, 2018

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 March 31, 2018
Common stock, $.001 par value	**38,916,788**

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, 2017	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,364,096	$1,156,408
Restricted cash	3,928	2,140
Short-term investments	818,934	1,074,538
Accounts receivable, net	250,468	217,148
Prepaid and other current assets (including $32,005 and $33,563, respectively, due from a related party as of December 31, 2017 and March 31, 2018)	192,675	211,696
Total current assets	2,630,101	2,661,930
Fixed assets, net	529,717	545,419
Goodwill	71,565	73,102
Long-term investments, net	90,145	98,612
Intangible assets, net	23,060	19,908
Restricted time deposits	271	272
Prepaid non-current assets	4,211	3,967
Other assets	40,169	41,638
Total assets	$ 3,389,239	$3,444,848
LIABILITIES		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities ("VIEs") without recourse to the Company of $53,842 and $83,403, respectively, as of December 31, 2017 and March 31, 2018)	$ 288,394	$ 347,955
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of $76,883 and $66,470, respectively, as of December 31, 2017 and March 31, 2018)	343,106	351,732
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of $46,939 and $48,895, respectively, as of December 31, 2017 and March 31, 2018)	127,758	135,986
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of $8,137 and $5,972, respectively, as of December 31, 2017 and March 31, 2018)	102,087	87,311
Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of $18,210 and $15,789, respectively, as of December 31, 2017 and March 31, 2018)	96,541	96,742
Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2017 and March 31, 2018)	61,216	63,612
Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of $71,644 and $66,189, respectively, as of December 31, 2017 and March 31, 2018, and due to a related party of $31,192 and $32,370, respectively, as of December 31, 2017 and March 31, 2018)	136,300	125,166
Total current liabilities	1,155,402	1,208,504
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of nil as of both December 31, 2017 and March 31, 2018)	1,157	1,203
Long-term bank loans (including long-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2017 and March 31, 2018)	122,433	127,224
Long-term taxes payable (including long-term taxes payable of consolidated VIEs without recourse to the Company of $14,293 and $14,794, respectively, as of December 31, 2017 and March 31, 2018)	249,618	249,672
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of $3,451 and $3,853, respectively, as of December 31, 2017 and March 31, 2018)	43,392	95,632
Total long-term liabilities	416,600	473,731
Total liabilities	1,572,002	1,682,235
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Sohu.com Inc. shareholders' equity:		
Common stock: $0.001 par value per share (75,400 shares authorized; 38,898 shares and 38,917 shares, respectively, issued and outstanding as of December 31, 2017 and March 31, 2018)	45	45
Additional paid-in capital	1,098,455	1,091,487
Treasury stock (5,890 shares as of both December 31, 2017 and March 31, 2018)	(143,858)	(143,858)
Accumulated other comprehensive income	38,212	44,220
Accumulated deficit	(242,220)	(327,537)
Total Sohu.com Inc. shareholders' equity	750,634	664,357
Noncontrolling interest	1,066,603	1,098,256
Total shareholders' equity	1,817,237	1,762,613
Total liabilities and shareholders' equity	$ 3,389,239	$3,444,848

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

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SOHU.COM INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)
(In thousands, except per share data)

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2018
Revenues:		
Online advertising:		
Brand advertising	$ 81,412	$ 56,254
Search and search-related advertising	142,035	220,301
Subtotal of online advertising revenues	223,447	276,555
Online games	85,325	105,461
Others	65,331	72,979
Total revenues	374,103	454,995
Cost of revenues:		
Online advertising:		
Brand advertising	80,197	50,611
Search and search-related advertising	82,107	144,696
Subtotal of cost of online advertising revenues	162,304	195,307
Online games	16,505	17,119
Others	40,070	48,407
Total cost of revenues	218,879	260,833
Gross profit	155,224	194,162
Operating expenses:		
Product development	84,098	111,543
Sales and marketing	90,086	90,273
General and administrative	28,350	23,836
Total operating expenses	202,534	225,652
Operating loss	(47,310)	(31,490)
Other income, net	4,099	12,281
Interest income (including interest income generated from a related party of $280 and $302, respectively, for the three months ended March 31, 2017 and March 31, 2018)	4,471	7,808
Interest expense (including interest expense generated from a related party of $177 and $172, respectively, for the three months ended March 31, 2017 and March 31, 2018)	(175)	(3,081)
Exchange difference	(766)	(9,340)
Loss before income tax expense	(39,681)	(23,822)
Income tax expense	10,672	63,379
Net loss	(50,353)	(87,201)
Less: Net income attributable to the noncontrolling interest shareholders	17,895	5,617
Net loss attributable to Sohu.com Inc.	$ (68,248)	$ (92,818)
Net loss	$ (50,353)	$ (87,201)
Foreign currency translation adjustments	4,968	37,031
Change in unrealized loss for equity investments with readily determinable fair values	(678)	0
Other comprehensive income	4,290	37,031
Comprehensive loss	(46,063)	(50,170)
Less: Comprehensive income attributable to noncontrolling interest shareholders	20,533	29,139
Comprehensive loss attributable to Sohu.com Inc.	(66,596)	(79,309)
Basic net loss per share attributable to Sohu.com Inc.	$ (1.76)	$ (2.39)
Shares used in computing basic net loss per share attributable to Sohu.com Inc.	38,811	38,904
Diluted net loss per share attributable to Sohu.com Inc.	$ (1.77)	$ (2.39)
Shares used in computing diluted net loss per share attributable to Sohu.com Inc.	38,811	38,904

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

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2018
Cash flows from operating activities:		
Net loss	$ (50,353)	$ (87,201)
Adjustments to reconcile net income /(loss) to net cash provided by operating activities:		
Amortization of intangible assets and purchased video content in prepaid expense	35,777	15,876
Depreciation	19,360	23,399
Share-based compensation expense	3,220	(2,344)
Impairment of other intangible assets and other assets	359	1,127
Investment loss /(gain) from equity investments	49	(1,975)
Provision for allowance for doubtful accounts	2,035	295
Loss /(gain) from sale of equity investments	523	(134)
Change in fair value of financial instruments	(2,064)	(9,258)
Others	(328)	53
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	15,723	41,730
Prepaid and other assets	(924)	(8,986)
Accounts payable	15,801	42,240
Receipts in advance and deferred revenue	(4,205)	3,258
Taxes payable	(1,152)	(4,849)
Deferred tax	4,204	49,901
Accrued liabilities and other short-term liabilities	(69,695)	(44,502)
Net cash provided by /(used in) operating activities	(31,670)	18,630
Cash flows from investing activities:		
Purchase of fixed assets	(10,502)	(17,266)
Purchase of intangible and other assets	(23,316)	(8,588)
Purchase of long-term investments	(2,190)	(16,971)
Return of funds from a third party	4,928	0
Proceeds from financial instruments	87,317	444,469
Purchase of financial instruments	(119,024)	(663,428)
Proceeds received from sale of equity investments, net	0	12,070
Other cash proceeds related to investing activities	31	371
Net cash used in investing activities	(62,756)	(249,343)
Cash flows from financing activities:		
Exercise of share-based awards in subsidiaries	450	4
Repurchase of Sogou Pre-IPO Class A Ordinary Shares from noncontrolling shareholders	(3,190)	0
Net cash provided by /(used in) financing activities	(2,740)	4
Effect of exchange rate changes on cash and cash equivalents, and restricted cash	3,474	21,233
Reclassification of cash and cash equivalents from assets held for sale	11,684	0
Net decrease in cash and cash equivalents, and restricted cash	(82,008)	(209,476)
Cash and cash equivalents, and restricted cash, at beginning of period	1,050,957	1,368,024
Cash and cash equivalents, and restricted cash, at end of period	$ 968,949	$ 1,158,548
Supplemental cash flow disclosures:		
Barter transactions recognized in revenue	3,185	339
Supplemental schedule of non-cash investing activity:		
Changes in payables and other liabilities related to fixed assets and intangible assets additions	8,084	19,032

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

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

Three Months Ended March 31, 2017
(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	$1,557,795	$ 45	$821,867	$(143,858)	$ 3,220	$312,306	$ 564,215
Share-based compensation expense	3,220	0	(2,641)	0	0	0	5,861
Settlement of share-based awards in subsidiaries	450	0	5,262	0	0	0	(4,812)
Repurchase of Sogou Pre-IPO Class A Ordinary Shares from noncontrolling shareholders	(3,190)	0	0	0	0	0	(3,190)
Disposal of noncontrolling interest	(80)	0	0	0	0	0	(80)
Net income /(loss) attributable to Sohu.com Inc. and noncontrolling interest shareholders	(50,353)	0	0	0	0	(68,248)	17,895
Accumulated other comprehensive income /(loss)	4,290	0	0	0	1,652	0	2,638
Other	187	0	0	0	0	0	187
Ending balance	$1,512,319	$ 45	$824,488	$(143,858)	$ 4,872	$244,058	$ 582,714

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

SOHU.COM INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)
Three Months Ended March 31, 2018
(In thousands)

	Total	Sohu.com Inc. Shareholders' Equity					Noncontrolling Interest
		Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	
Beginning balance	$1,817,237	$ 45	$1,098,455	$(143,858)	$ 38,212	$ (242,220)	$ 1,066,603
Impact of adoption of new accounting standards*	0	0	0	0	(7,501)	7,501	0
Share-based compensation expense	(2,344)	0	(4,166)	0	0	0	1,822
Settlement /(Adjustment) of share-based awards in subsidiaries	3	0	(2,802)	0	0	0	2,805
Disposal of noncontrolling interest	(2,113)	0	0	0	0	0	(2,113)
Net income /(loss) attributable to Sohu.com Inc. and noncontrolling interest shareholders	(87,201)	0	0	0	0	(92,818)	5,617
Accumulated other comprehensive income	37,031	0	0	0	13,509	0	23,522
Ending balance	$1,762,613	$ 45	$1,091,487	$(143,858)	$ 44,220	$ (327,537)	$ 1,098,256

* For details see Note 6 - Fair Value of Financial Instruments - Equity Investments

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 these condensed consolidated financial statements, 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 an innovator in search and a leader in China's Internet industry. With a mission to make it easy to communicate and get information, Sogou has grown to become the second largest search engine by mobile queries and the fourth largest Internet company by monthly active users ("MAU") in China, according to iResearch. 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 Legacy TLBB, 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.

Sogou completed its IPO on the NYSE in November 2017 (trading under the symbol "SOGO") and Changyou completed its IPO on NASDAQ in April 2009 (trading under the symbol "CYOU"). As Sohu.com Inc. is the controlling shareholder of both Sogou and Changyou, Sohu.com Inc. consolidates Sogou and Changyou in its consolidated financial statements, and recognizes noncontrolling interests reflecting economic interests in Sogou and Changyou held by shareholders other than Sohu.com Inc.

Through the operation of Sohu, Sogou and Changyou, the Sohu Group generates online advertising revenues, including brand advertising revenues and search and search-related advertising revenues; online games revenues; and other revenues. Online advertising and online games are the Sohu Group's core businesses. Most of the Sohu Group's operations are conducted through its China-based subsidiaries and VIEs.

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 the mobile phone application Sohu News APP, www.sohu.com for PCs 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 Sohu Business

Sohu also engages in the other business, which consists primarily of paid subscription services, interactive broadcasting services, content provided through the platforms of the three main telecommunications operators in China, and sub-licensing of purchased video content to third parties. 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 consists primarily of search and search-related advertising services offered by Sogou. Search and search-related advertising services enable advertisers' promotional links to be displayed on Sogou's search results pages and other Internet properties and third parties' Internet properties where the links are relevant to the subject and content of searches and such properties. Sogou's advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. 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 products and services provided by Tencent.

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

Other Sogou Business

Sogou also offers Internet value-added services ("IVAS"), primarily with respect to the operation of Web games and mobile games developed by third parties and the provision of online reading services, and offers other products and services, including smart hardware products. Revenues generated by Sogou from other business are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Initial Public Offering of Sogou

On November 13, 2017, Sogou completed its IPO on the New York Stock Exchange (the "NYSE"), trading under the symbol "SOGO."

Sogou's IPO consisted of American depositary shares ("ADSs"), with each ADS representing one Class A Ordinary Share. Sogou issued and sold in the IPO 50,643,856 Class A Ordinary Shares represented by 50,643,856 ADSs, including 5,643,856 Class A Ordinary Shares represented by 5,643,856 ADSs sold pursuant to the exercise of the underwriters' over-allotment option. Proceeds to Sogou from the IPO were approximately $622.1 million, after deducting underwriting discounts and commissions and offering expenses.

In the fourth quarter of 2017, Sohu recognized a one-time credit to additional paid-in capital of $278.4 million in shareholders' equity in its consolidated balance sheets to reflect an increase in the value of Sohu's equity in Sogou that resulted from the completion of Sogou's IPO.

Sogou's Ordinary Shares are divided into Class A Ordinary Shares and Class B Ordinary Shares. Holders of Class A Ordinary Shares and holders of Class B Ordinary Shares have identical rights with the exception of voting and conversion rights. Each Class A Ordinary Share is entitled to one vote per share and is not convertible. Each Class B Ordinary Share is entitled to ten votes per share and is convertible into one Class A Ordinary Share at any time.

Voting Agreement between Sohu and Tencent

Pursuant to a voting agreement among Sohu, Tencent Holdings Limited ("Tencent"), and Sogou (the "Sogou Voting Agreement") that took effect upon the completion of Sogou's IPO and Sogou's amended and restated memorandum and articles of association, Sohu has the right to appoint a majority of Sogou's Board of Directors, and Sohu continues to consolidate Sogou in Sohu's financial statements and provide for noncontrolling interests reflecting ordinary shares in Sogou held by shareholders other than Sohu.

Sogou's Share Structure

As of March 31, 2018, Sogou had a combined total of 397,183,397 Class A Ordinary Shares and Class B Ordinary Shares issued and outstanding, consisting of:

(i) Sohu: 127,200,000 Class B Ordinary Shares held by Sohu for its own account, and 3,717,250 Class A Ordinary Shares held by Sohu for the purpose of issuance upon the exercise of outstanding share-based awards and future share-based awards;

(ii) Tencent: 151,557,875 Class B Ordinary Shares;

(iii) Photon Group Limited ("Photon"), an investment vehicle of the Sohu Group's Chairman and Chief Executive Officer Charles Zhang: 32,000,000 Class A Ordinary Shares; and

(iv) Shareholders other than Sohu, Tencent, and Photon: 82,708,272 Class A Ordinary Shares.

The totals of Sogou outstanding shares listed above include 10,327,500 Class A Ordinary Shares that are outstanding for legal purposes, but have been determined to be Sogou treasury stock for accounting purposes.

Changyou's Business

Changyou's business lines consist of the online game business; the platform channel business, which consists primarily of online advertising and IVAS; and the cinema advertising business.

Online Game Business

Changyou's online game business offers PC games and mobile games to game players. 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 the Sohu Group's consolidated statements of comprehensive income.

PC Games

PC games 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. Changyou's dominant game is TLBB, a PC based client-end game. For the three months ended March 31, 2018, revenues from TLBB were $50.8 million, accounting for approximately 48% of Changyou's online game revenues, approximately 37% of Changyou's total revenues and approximately 11% of the Sohu Group's total revenues.

Mobile Games

Mobile games are played on mobile devices and require an Internet connection. In the second quarter of 2017, Changyou launched a new mobile game, Legacy TLBB, which is operated by Tencent under license from Changyou. For the three months ended March 31, 2018, revenues from Legacy TLBB were $28.2 million, accounting for approximately 27% of Changyou's online game revenues, approximately 21% of Changyou's total revenues, and approximately 6% of the Sohu Group's total revenues.

Web Games

Prior to the sale of Shenzhen 7Road Technology Co., Ltd. ("Shenzhen 7Road") in August 2015, Changyou's online games also included Web games, which are online games that are played through a Web browser with no local game software installation requirements. Following the sale of Shenzhen 7Road, Web games became an insignificant part of Changyou's online game business.

Platform Channel Business

Changyou's platform channel business consists primarily of the operation of the 17173.com Website and RaidCall. Prior to the sale of MoboTap in March 2018, Changyou's platform channel business also included MoboTap.

17173.com Website

The 17173.com Website is one of the leading information portals in China, and provides news, electronic forums, online videos and other information services regarding online games to game players. All revenues generated by the 17173.com Website are classified as brand advertising revenues.

RaidCall

RaidCall provides online music and entertainment services, primarily in Taiwan. IVAS revenues generated by RaidCall are classified as other revenues in the Company's consolidated statements of comprehensive income.

MoboTap

MoboTap provides (a) software applications for PCs and mobile devices through the Dolphin Browser, which is a gateway to a host of user activities on mobile devices, with the majority of its users based in overseas markets, and (b) domestic online card and board games. IVAS revenues generated by the Dolphin Browser are classified as other revenues and online card and board games revenues generated by MoboTap are classified as online game revenues in the Company's consolidated statements of comprehensive income. Changyou disposed of MoboTap for $3.0 million in the first quarter of 2018.

Cinema Advertising Business

Changyou also operates a cinema advertising business, which consists primarily of the acquisition from operators of movie theaters, and the sale to advertisers of pre-film advertising slots, which are advertisements 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.

Changyou's Share Structure

As of March 31, 2018, Changyou had a combined total of 105,836,420 Class A and Class B Ordinary Shares issued and outstanding, consisting of:

(i) Sohu.com Inc.: 1,500,000 Class A Ordinary Shares and 70,250,000 Class B Ordinary Shares; and

(ii) Public shareholders: 34,086,420 Class A Ordinary Shares.

As of March 31, 2018, Sohu.com Inc. held approximately 68% of the combined total of Changyou's outstanding ordinary shares, and controlled approximately 95% of the total voting power in Changyou. As Changyou's controlling shareholder, Sohu.com Inc. consolidates Changyou in its financial statements and provides for noncontrolling interests reflecting ordinary shares in Changyou held by shareholders other than Sohu.com Inc.

Basis of Consolidation and Recognition of Noncontrolling Interest

The Sohu Group's consolidated financial statements include the accounts of Sohu.com Inc. and its subsidiaries and consolidated VIEs. All intra-Group 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. Currently, the noncontrolling interests in the Sohu Group's consolidated financial statements primarily consist of noncontrolling interests for Sogou and Changyou.

Noncontrolling Interest for Sogou

Sogou completed its IPO on the NYSE in November 2017. Prior to the completion of Sogou's IPO, Sohu.com Inc. controlled the election of a majority of the Board of Directors of Sogou pursuant to a shareholders' agreement that expired upon completion of the IPO. Following the completion of Sogou's IPO, pursuant to the Sogou Voting Agreement and Sogou's amended and restated memorandum and articles of association, Sohu.com Inc. still has the right to appoint a majority of Sogou's Board of Directors.

As Sogou's controlling shareholder, the Sohu Group consolidates Sogou in its consolidated financial statements, and recognizes noncontrolling interest reflecting economic interests in Sogou held by shareholders other than it (the "Sogou noncontrolling shareholders"). Sogou's net income /(loss) attributable to the Sogou noncontrolling shareholders is recorded as noncontrolling interest in its consolidated statements of comprehensive income.

<u>*Noncontrolling Interest Recognition before Sogou's IPO*</u>

Based on the principles of allocation of Sogou's profit and loss set forth below, Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity/(deficit) and adjustments for share-based compensation expense in relation to those share-based awards that were unvested and vested but not yet settled and the Sogou noncontrolling shareholders' investments in Sogou Series A Preferred Shares outstanding before Sogou's IPO ("Sogou Pre-IPO Series A Preferred Shares") and Sogou Series B Preferred Shares outstanding before Sogou's IPO ("Sogou Pre-IPO Series B Preferred Shares") (together, the "Sogou Pre-IPO Preferred Shares") and in Sogou ordinary shares outstanding before Sogou's IPO ("Sogou Pre-IPO Class A Ordinary Shares" and "Sogou Pre-IPO Class B Ordinary Shares, as applicable), were accounted for as a noncontrolling interest classified as permanent equity in the Sohu Group's consolidated balance sheets, as Sohu Group had the power to reject a redemption requested by the noncontrolling shareholders. These treatments were based on the terms governing investment, and on the terms of the classes of Sogou shares held, by the noncontrolling shareholders in Sogou before Sogou's IPO.

Principles of Allocation of Sogou's Profit and Loss - By virtue of the terms of the Sogou Pre-IPO Preferred Shares, Pre-IPO Class A Ordinary Shares, and Pre-IPO Class B Ordinary Shares, Sogou's losses were allocated in the following order before Sogou's IPO:

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

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

(iii) additional net losses were allocated to the holder of the Sogou Pre-IPO Series B Preferred Shares until its basis in Sogou decreased to zero; and

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

Net income from Sogou was allocated in the following order before Sogou's IPO:

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

(ii) additional net income was allocated to the holder of the Sogou Pre-IPO Series B Preferred Shares to bring its basis back;

(iii) additional net income was allocated to holders of the Sogou Pre-IPO Series A Preferred Shares to bring their basis back;

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

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

Noncontrolling Interest Recognition after Sogou's IPO

Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, based on their share of the economic interest in Sogou, along with changes in shareholders' equity and adjustment for share-based compensation expense in relation to share-based awards that are unvested and vested but not yet settled and adjustment for changes in the Sohu Group's ownership percentage in Sogou, are recorded as noncontrolling interest in the Sohu Group's consolidated balance sheets.

Noncontrolling Interest for Changyou

Changyou is a public company listed on the NASDAQ Global Select Market. As of March 31, 2018, Sohu.com Inc. held approximately 68% of the combined total of Changyou's outstanding ordinary shares, and controlled approximately 95% of the total voting power in Changyou.

As Changyou's controlling shareholder, Sohu.com Inc. consolidates Changyou in its consolidated financial statements, and recognizes noncontrolling interest reflecting 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 the noncontrolling shareholders' 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.

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Basis of Presentation

These financial statements have been prepared in accordance with generally accepted accounting principles ("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, 2017.

The accompanying unaudited condensed consolidated interim financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the three months ended March 31, 2018 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

Revenue Recognition

Adoption of ASC 606

On January 1, 2018, the Sohu Group adopted ASC 606, applying the modified retrospective method to contracts that were not completed as of January 1, 2018. Adoption did not have a material impact on accumulated deficit as of January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Group's historic accounting under ASC 605.

Under ASC 605, advertising-for-advertising barter transactions for which the fair value of the advertising services was not determinable was recorded at the carrying amount of the advertising surrendered since the Group did not settle such barter transactions with the counterparties in cash. As ASC 605 has been superseded by ASC 606 on this subject, advertising-for-advertising barter transactions should be recorded at the fair value of the advertising received by reference to the fair value of advertising services provided to other customers. The impact for the first quarter of 2018 was an increase of approximately $6.7 million in revenues, with a corresponding increase in cost of revenues and sales and marketing expenses, most of which were generated from Sogou for services provided to and received from Tencent. To a lesser extent, there is a potential impact on the Group's accounting for exchanges of brand advertising placements with other platforms by Sohu. Revenues are recognized in the same amount with costs and expenses. Therefore, there was no net profit and loss impact to the Group for the first quarter of 2018.

The following table illustrates the effect of the adoption of ASC 606 by presenting a comparison of selected line items from the Group's condensed consolidated statement of comprehensive income for the three months ended March 31, 2018, as actually reported and as they would have been reported under ASC 605, without the adoption of ASC 606 (in thousands, except per share data):

	As reported	Without adoption of ASC 606	Effect of change Higher/(Lower)
Revenue-Online advertising-Brand advertising	$ 56,254	55,913	341
Revenue-Online advertising-Search and search related advertising	220,301	213,987	6,314
Cost of revenue- Online advertising-Search and search related advertising	144,696	138,955	5,741
Gross profit	194,162	193,248	914
Operating expenses- Sales and marketing	90,273	89,359	914
Operating loss	(31,490)	(31,490)	0
Income tax expenses	63,379	63,379	0
Net loss	(87,201)	(87,201)	0
Basic net loss per share attributable to Sohu.com Inc.	(2.39)	(2.39)	0
Diluted net loss per share attributable to Sohu.com Inc.	(2.39)	(2.39)	0

The adoption of ASC 606 did not change the Group's condensed consolidated balance sheet, condensed consolidated statement of cash flows, or condensed consolidated statement of changes in equity for the three months ended March 31, 2018.

Revenues are recognized when control of the promised goods or services is transferred to the Group's customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for those goods or services. The recognition of revenues involves certain management judgments, including estimated lives of virtual items purchased by game players, the estimation of the fair value of an advertising-for-advertising barter transaction, allocation of upfront license fees for licensed-out games between license and post-sale services, and volume sales rebates. The Group does not believe that significant management judgements are involved in revenue recognition, but the amount and timing of the Group's revenues could be different for any period if management made different judgments or utilized different estimates.

The following table presents the Group's revenues disaggregated by products and services (unaudited):

	Three Months Ended March 31, 2018 (in thousands)				Three Months Ended March 31, 2017 (in thousands)			
	Sohu	Sogou	Changyou	Total	Sohu	Sogou	Changyou	Total
Brand advertising:								
Sohu Media Portal	$30,674	0	0	30,674	$36,844	0	0	36,844
Sohu Video	12,635	0	0	12,635	21,696	0	0	21,696
Focus	7,868	0	0	7,868	17,018	0	0	17,018
17173.com Website	0	0	5,078	5,078	0	0	5,854	5,854
Search and search related advertising	0	220,301	0	220,301	0	142,035	0	142,035
Online games:								
PC games	0	0	59,425	59,425	0	0	64,881	64,881
Mobile games	0	0	45,735	45,735	0	0	19,838	19,838
Other games	0	0	301	301	0	0	606	606
Others:								
Paid subscription services	9,257	0	0	9,257	6,316	0	0	6,316
Cinema advertising business	0	0	24,870	24,870	0	0	24,600	24,600
Others	9,305	27,749	1,797	38,851	10,090	20,234	4,091	34,415
Total	$69,739	248,050	137,206	454,995	$91,964	162,269	119,870	374,103

As noted above, in accordance with the modified retrospective method upon adoption of ASC 606, prior period amounts have not been adjusted.

Online Advertising Revenues

Online advertising revenues include revenues from brand advertising services as well as search and search-related advertising services. Certain customers may receive sales rebates, which are accounted for as variable consideration. The Group estimates annual expected revenue volume of each individual agent with reference to their historical results. The sales rebate will reduce revenues recognized. The Group recognizes revenue for the amount of fees it receives from its advertisers, after deducting sales rebates and net of value-added tax ("VAT") and related surcharges. The Group believes that there will not be significant changes to its estimates of variable consideration.

Brand Advertising Revenues

Revenue Recognition of Multiple Performance Obligations

The Group's contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenues to each performance obligation based on its relative standalone selling price. The Group generally determines standalone selling prices of each distinct performance obligation based on the prices charged to customers when sold on a standalone basis. Where standalone selling price is not directly observable, the Group generally estimate selling prices based on when they are sold to customers of a similar nature and geography. Most of such contracts have all performance obligations completed within the same quarter.

Pricing Model

Through PCs and mobile devices, the Group provides advertisement placements to its 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 the Group has three main types of pricing models, consisting of the Fixed Price model, the Cost Per Impression ("CPM") model, and the Cost Per click ("CPC") model.

(i) Fixed Price model

Under the Fixed Price model, a contract is signed to establish a fixed price for the advertising services to be provided. Given the advertisers benefit from the displayed advertising evenly, the Group recognizes revenue on a straight-line basis over the period of display, provided all revenue recognition criteria have been met.

(ii) CPM model

Under the CPM model, the unit price for each qualifying display is fixed and 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. Given that the fees are priced consistently throughout the contract and the unit prices are consistent with the Group's pricing practices with similar customers, the Group recognizes revenue which are based on the fixed unit prices and the number of qualifying displays upon occurrence of display, provided and all revenue recognition criteria have been met.

(iii) CPC model

Under the CPC model, there is no fixed price for advertising services stated in the contract with the advertiser and the unit price for each click is auction-based. The Group charges advertisers on a per-click basis, when the users click on the advertisements. Given that the fees are priced consistently throughout the contract and the unit prices are consistent with the Group's pricing practices with similar customers, the Group recognizes revenue based on qualifying clicks and the unit price upon the occurrence of a click, provided all revenue recognition criteria have been met.

Search and Search-related Advertising Revenues

Search and search-related services consist primarily of search and search-related advertising services offered by Sogou.

Pay-for-click Services

Pay for click services enable advertisers' promotional links to be displayed on Sogou search result pages and other Internet properties and third parties' Internet properties where the links are relevant to the subject and content of searches and such properties. For pay for click services, Sogou introduces Internet users to its advertisers through auction-based pay-for-click systems and charges 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.

Other Online Advertising Services

Other online advertising services mainly consist of displaying advertisers' promotional links on Sogou's Internet properties. Revenue for time-based advertising is normally recognized on a straight-line basis over the advertising period, provided Sogou's obligations under the contract and all revenue recognition criteria have been met. Revenue for performance-based advertising services is recognized when Sogou's performance obligations under the contract have been satisfied.

Sogou's online advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. Sogou is the primary obligor to the advertisers and payments made to operators of third-party Internet properties are included in traffic acquisition costs, which are included in cost of search and search-related advertising revenues.

Online Game Revenues

Changyou's online game revenues are generated primarily from its self-operated and licensed-out PC games and mobile 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.

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 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 as the virtual items are consumed or over the estimated lives of the virtual items, which are estimated by considering the average period that paying players typically play Changyou's games and other player behavior patterns derived from operating data. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of the recording of the revenues could be impacted.

PC Games

Proceeds from Changyou's self-operated 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.

Changyou's 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 pursuant to revenue-sharing agreements, and keeps the balance. Such revenue-sharing amounts paid to third-party developers are recorded in Changyou's cost of revenues.

Mobile Games

Self-operated Mobile Games

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

Changyou's 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 pursuant to revenue-sharing agreements, and keeps the balance. Such revenue-sharing amounts paid to mobile application stores and third-party developers are recorded in Changyou's cost of revenues.

Licensed Out Mobile Games

Changyou also authorizes third parties to operate its mobile games. Licensed out games mainly include mobile games developed in house Legacy TLBB and mobile games jointly developed with third-party developers. For mobile games developed in house, the license arrangements also include post-sale services. 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. Changyou determined that the game license and the post-sale services are distinct performance obligations and that the up-front license fee should be allocated between the license and the post-sale services based on the relative standalone selling price, which is determined by using expected cost plus margin. The amounts allocated to the license should be recognized upon the commencement of the license period, given that the license is considered to be a functional license, and the amount allocated to post-sale services should be recognized over the service period on a straight-line basis as the post-sale services are regarded to be performed evenly. The monthly revenue-based royalty payments are recognized when the sales occur, 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 pursuant to revenue-sharing agreements, and keeps the balance. Such revenue-sharing amounts paid to third-party developers are included in Changyou's cost of revenues or product development expenses.

Other Revenues

Sohu

Other revenues attributable to Sohu consist primarily of revenues from paid subscription services, interactive broadcasting services, content provided through the platforms of the three main telecommunications operators in China, and sub-licensing of purchased video content to third parties.

Sogou

Other revenues attributable to Sogou are IVAS revenues, which are mainly from the operation of Web games and mobile games developed by third parties and the provision of online reading services, and revenues from other products and services, including smart hardware products.

Changyou

Other revenues attributable to Changyou are primarily from its cinema advertising business and from IVAS.

In its cinema advertising business, Changyou provides clients advertising placements in slots that are shown in theaters before the screening of movies. The rights to place advertisements in such advertising slots are granted to Changyou, which takes inventory risk under the contracts Changyou signs with different theaters. When all the recognition criteria are met, revenues from cinema advertising are recognized based on a percentage of the advertising slots actually delivered. As Changyou is considered to be the principal in the arrangements with the theaters, the fees paid to the theaters are recognized as cost of revenues.

Changyou provides IVAS primarily through software applications for PCs and mobile devices offered by RaidCall. Revenues from IVAS are recognized during the period the services are rendered or items are consumed under the gross method, as Changyou is the principal obligor for provision of the services.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenue recognized prior to invoicing, when the Group has satisfied its performance obligations and has the unconditional right to payment. The allowance for doubtful accounts and authorized credits is estimated based upon the Group's assessment of various factors, including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect the Group's customers' ability to pay. Contract assets as of March 31, 2018 were not material. The allowance for doubtful accounts and authorized credits was $5.5 million and $5.7 million, respectively, as of March 31, 2018 and December 31, 2017.

Receipts in advance and deferred revenue related to unsatisfied performance obligations at the end of the period and consist of fees received from the game players with online gaming business and advertisers with searching and searching related advertising business. Due to the generally short-term duration of the contracts, the majority of the performance obligations are satisfied in the following reporting period. The amount of revenue recognized that was included in the receipts in advance and deferred revenue balance at the beginning of the period was $104.3 million for the three month periods ended March 31, 2018.

There is no significant change in contract liability balance during the first quarter of 2018.

Revenue recognized in the current period from performance obligations related to prior periods was not material.

Practical Expedients

The Group has used the following practical expedients as allowed under ASC 606:

(i) The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed as substantially all of the Group's contracts have a duration of one year or less.

(ii) Payment terms and conditions vary by contract type, although terms generally include a requirement of prepayment or payment within one year or less. In instances where the timing of revenue recognition differs from the timing of invoicing, the Group has determined that its contracts generally do not include a significant financing component.

(iii) The Group applied the portfolio approach in determining the commencement date of consumption and the estimated lives of virtual items for the recongnition of games revenue given that the effect of applying a portfolio approach to a group game players' behaviors would not differ materially from considering each one of them individually.

(iv) The Group generally expenses sales commissions when incurred because the amortization period would be one year or less. These costs are recorded within sales and marketing expenses.

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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 March 31, 2017				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	$ 92,492	$162,284	$119,870	$ (543)	$ 374,103
Segment cost of revenues	(92,202)	(87,454)	(39,088)	51	(218,693)
Segment gross profit	290	74,830	80,782	(492)	155,410
SBC (2) in cost of revenues	(159)	(3)	(24)	0	(186)
Gross profit	131	74,827	80,758	(492)	155,224
Operating expenses:					
Product development (3)	(25,979)	(32,849)	(24,404)	1,461	(81,771)
Sales and marketing (1) (3)	(55,051)	(24,765)	(10,536)	931	(89,421)
General and administrative (3)	(10,905)	(4,635)	(8,791)	32	(24,299)
SBC (2) in operating expenses	2,806	(4,340)	(5,509)	0	(7,043)
Total operating expenses	(89,129)	(66,589)	(49,240)	2,424	(202,534)
Operating profit /(loss)	(88,998)	8,238	31,518	1,932	(47,310)
Other income /(loss) (3)	3,741	23	2,267	(1,932)	4,099
Interest income (4)	1,671	1,658	6,416	(5,274)	4,471
Interest expense (4)	(4,376)	0	(1,073)	5,274	(175)
Exchange difference	615	(639)	(742)	0	(766)
Income /(loss) before income tax expense	(87,347)	9,280	38,386	0	(39,681)
Income tax expense	(1,195)	(1,052)	(8,425)	0	(10,672)
Net income /(loss)	$(88,542)	$ 8,228	$ 29,961	$ 0	$ (50,353)

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): The elimination represents interest income /(expense) resulting from intra-Group loans between the Sohu segment and the Changyou segment.

	Three Months Ended March 31, 2018				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	$ 69,928	$ 248,384	$137,205	$ (522)	$ 454,995
Segment cost of revenues	(64,539)	(153,804)	(42,954)	14	(261,283)
Segment gross profit	5,389	94,580	94,251	(508)	193,712
SBC (2) in cost of revenues	657	(219)	12	0	450
Gross profit	6,046	94,361	94,263	(508)	194,162
Operating expenses:					
Product development (3)	(34,566)	(43,448)	(34,728)	1,914	(110,828)
Sales and marketing (1) (3)	(48,890)	(26,707)	(15,436)	671	(90,362)
General and administrative (3)	(11,409)	(5,879)	(9,169)	101	(26,356)

SBC (2) in operating expenses	3,541	(4,060)	2,413	0	1,894
Total operating expenses	(91,324)	(80,094)	(56,920)	2,686	(225,652)
Operating profit /(loss)	(85,278)	14,267	37,343	2,178	(31,490)
Other income /(loss) (3)	4,632	4,386	5,441	(2,178)	12,281
Interest income (4)	2,462	3,467	9,169	(7,290)	7,808
Interest expense (4)	(8,849)	0	(1,522)	7,290	(3,081)
Exchange difference	(1,863)	(4,666)	(2,811)	0	(9,340)
Income /(loss) before income tax expense	(88,896)	17,454	47,620	0	(23,822)
Income tax expense	(176)	(2,144)	(61,059)	0	(63,379)
Net income /(loss)	$(89,072)	$ 15,310	$(13,439)	$ 0	$ (87,201)

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): The elimination represents interest income /(expense) resulting from intra-Group loans between the Sohu segment and the Changyou segment.

	As of December 31, 2017				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	$ 98,750	$ 694,207	$ 571,139	$ 0	$1,364,096
Accounts receivable, net	86,801	72,117	91,636	(86)	250,468
Fixed assets, net	200,561	139,209	189,947	0	529,717
Total assets (1)	$1,124,759	$1,321,036	$1,922,023	$ (978,579)	$3,389,239

Note (1): The elimination for segment assets mainly consists of elimination of intra-Group loans between the Sohu segment and the Changyou segment, and elimination of long-term investments in subsidiaries and consolidated VIEs.

	As of March 31, 2018				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	$ 74,932	$ 352,158	$ 729,318	$ 0	$1,156,408
Accounts receivable, net	81,408	55,709	80,121	(90)	217,148
Fixed assets, net	208,196	142,766	194,457	0	545,419
Total assets (1)	$1,065,859	$1,374,426	$2,008,826	$(1,004,263)	$3,444,848

Note (1): The elimination for segment assets mainly consists of elimination of intra-Group 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 and 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.

Options for the purchase of Sohu common stock contractually granted under the Sohu 2010 Stock Incentive Plan and options for the purchase of Changyou Class A ordinary shares contractually granted under the Changyou 2014 Share Incentive Plan 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 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.

For Sogou Pre-IPO Class A Ordinary Shares repurchased by Sogou from the former President and Chief Financial Officer of the Sohu Group in the first quarter of 2017, share-based compensation expense is recognized by the Sohu Group in the consolidated statements of comprehensive income in an amount equal to the excess of the repurchase price over the fair value of the Sogou Pre-IPO Class A Ordinary Shares at the repurchase date.

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 March 31, 2018, 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 March 31, 2018, 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 was not determinable and could not be accounted for. In accordance with ASC 718-10-55, the Group'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 months ended March 31, 2017 and 2018 as follows (in thousands):

	Three Months Ended March 31,	
Share-based compensation expense	**2017**	**2018**
Cost of revenues	$ 186	$ (450)
Product development expenses	2,327	715
Sales and marketing expenses	665	(89)
General and administrative expenses	4,051	(2,520)
	$7,229	$(2,344)

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

	Three Months Ended March 31,	
Share-based compensation expense	**2017**	**2018**
For Sohu (excluding Sohu Video) share-based awards	$(2,443)	$(4,049)
For Sogou share-based awards (2)	4,337	4,279
For Changyou share-based awards	5,533	(2,425)
For Sohu Video share-based awards (1)	(198)	(149)
	$ 7,229	$(2,344)

Note (1): The negative amount resulted from re-measured compensation expense based on the then-current fair value of the awards on the reporting date.

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 and search-related businesses, and compensation expense of $4.0 million recognized in the first quarter of 2017 in connection with Sogou's repurchase of Sogou Pre-IPO Class A Ordinary Shares from the former President and Chief Financial Officer of the Sohu Group, which is equal to the excess of the repurchase price over the fair value of the Sogou Pre-IPO Class A Ordinary Shares as of the repurchase date.

There was no capitalized share-based compensation expense for the three months ended March 31, 2018 and 2017.

For details of the share-based compensation expenses of the Sohu Group, see Note 11.

4. RELATED PARTY TRANSACTIONS

Under an agreement between Sohu and Fox Financial Technology Group Limited ("Fox Financial," formerly known as "SoEasy Internet Finance Group Limited") entered into in August 2014, Sohu invested $4.8 million and $16.1 million, respectively, in Fox Financial in August 2014 and April 2015. In February 2016, Sohu invested an additional $10.5 million in Fox Financial, see Note 6 – Fair Value Measurements - Other Financial Instruments - Long-term Investments.

Changyou's Loan Arrangements with Fox Financial

Commencing in April 2015, certain subsidiaries of Changyou and certain subsidiaries of Fox Financial 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 Fox Financial subsidiaries and the Fox Financial 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 which approximates the current market interest rate.

As of March 31, 2018, Changyou had U.S. dollar-denominated loans payable to Fox Financial in a total amount of approximately $30.8 million, which was recorded in other short-term liabilities, and RMB-denominated loans receivable from Fox Financial in a total amount of approximately $31.0 million, which was recorded in prepaid and other current assets. For the three months ended March 31, 2018, Changyou incurred interest expense of $0.2 million in connection with the loans payable and earned interest income of $0.3 million in connection with the loans receivable. As of March 31, 2018, total interest expense payable to Fox Financial amounted to $1.6 million, which was recorded in other short-term liabilities; and total interest income receivable from Fox Financial was $2.6 million, which was recorded in prepaid and other current assets.

5. INTRA-GROUP LOAN AND SHARE PLEDGE AGREEMENT

On October 24, 2016, Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media"), a subsidiary of Sohu, entered into a loan agreement (the "Loan Agreement") with Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame"), a subsidiary of Changyou, pursuant to which Sohu Media may borrow from time to time from AmazGame up to RMB1.00 billion (or approximately $159.0 million). Principal amounts outstanding under the Loan Agreement 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 11,386,228 Class B ordinary shares of Changyou held by Sohu Game. The number of Changyou Class B ordinary shares pledged by Sohu Game to Changyou is subject to upward adjustment from time to time while amounts are outstanding under the Loan Agreement if the price of Changyou's American depositary shares ("ADSs") on the NASDAQ Global Select Market drops for at least 10 consecutive trading days by an amount of 20% or more from such price as of the date of the Share Pledge Agreement, and is subject to further upward adjustment in the event of any additional incremental drops of 20% or more in the price of Changyou's ADSs during 10 consecutive trading days. The share pledge agreement gives 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 under the Loan Agreement are not paid when due.

In December 2016, March 2017 and April 2017, Sohu Media received RMB500.0 million (or approximately $79.5 million), RMB200.0 million (or $31.8 million) and RMB 300.0 million (or $47.7 million), respectively, from AmazGame. As of March 31, 2018, the total outstanding balance of the loan was RMB1.00 billion (or $159.0 million). The intra-Group loan has been eliminated upon consolidation. In December 2017, Sohu Media and AmazGame entered into an agreement extending the due date of each advance for an additional year. As of March 31, 2018, the number of Class B ordinary shares pledged by Sohu Game to Changyou was 13,704,663.

6. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The Sohu Group's financial instruments consist primarily of cash equivalents, short-term investments, accounts receivable, prepaid and other current assets, long-term investments, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, long-term bank loans 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, 2017 (in thousands):

Items	As of December 31, 2017	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	$ 1,136,892	$ 0	$ 1,136,892	$ 0
Short-term investments	818,934	0	818,934	0
Equity investments with readily determinable fair values	21,307	21,307	0	0
Foreign exchange forward contracts recognized in other short-term liabilities	715	0	715	0

The following table sets forth the financial instruments, measured at fair value by level within the fair value hierarchy, as of March 31, 2018 (in thousands):

Items	As of March 31, 2018	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	$ 924,738	$ 0	$ 924,738	$ 0
Short-term investments	1,074,538	0	1,074,538	0
Equity investments with readily determinable fair values	12,725	12,725	0	0

Cash Equivalents

The Sohu Group's cash equivalents mainly consist of time deposits with original maturities of three months or less, notice deposits, 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 March 31, 2018 and December 31, 2017, the Sohu Group's investment in these financial instruments was $1.07 billion and $818.9 million, respectively. 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 months ended March 31, 2018 and 2017, the Sohu Group recorded a gain from changes in the fair value of short-term investments in the amounts of $8.8 million and $2.6 million in the consolidated statements of comprehensive income, respectively.

Foreign Exchange Forward Contracts

In September 2016 and January 2017, Changyou entered into foreign exchange forward contracts with banks in aggregate notional amounts of $100 million and $50 million, respectively. Changyou entered into such foreign exchange forward contracts in compliance with its risk management policy for the purpose of eliminating the negative impact on earnings and equity resulting from fluctuations in the exchange rate between the U.S. dollar and the RMB. In January 2018, Changyou settled the remaining foreign exchange forward contracts with a realized loss of $0.2 million recognized in the consolidated statements of comprehensive income for the three months ended March 31, 2018. For the three months ended March 31, 2017, the Sohu Group recorded an unrealized loss of $0.5 million, resulting from changes in the fair values of forward contracts in the consolidated statements of comprehensive income. For the three months ended March 31, 2018 and 2017, the Sohu Group recorded cash outflows related to the forward contracts of $0.9 million and nil, respectively, in the consolidated statements of cash flows. As of March 31, 2018, the carrying value of the foreign exchange forward contracts recognized in other short-term liabilities was nil.

The Group estimated the fair values of foreign exchange forward contracts using the Black-Scholes model. The fair values of the forward contracts were estimated based on quoted forward exchange prices at the reporting date. The Group classifies the fair value measurement of the forward contracts based on such inputs as Level 2 of fair value measurements.

Equity Investments

ASU 2016-01 ("ASU 2016-01"), Recognition and Measurement of Financial Assets and Financial Liabilities amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The main provisions require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value through earnings, unless they qualify for a measurement alternative. The new guidance will require modified retrospective application to all outstanding instruments beginning January 1, 2018, with a cumulative effect adjustment recorded to opening accumulated deficit as of the beginning of the first period in which the guidance becomes effective. However, changes to the accounting for equity securities without a readily determinable fair value will be applied prospectively.

The following table illustrates the effect of the adoption of ASU 2016-01 by presenting a comparison of selected line items from the Group's condensed consolidated statement of comprehensive income for the three months ended March 31, 2018, as actually reported and as they would have been reported under standards previously in effect (in thousands, except per share data):

	As reported	Without adoption of ASU 2016-01	Effect of change Higher/(Lower)
Operating profit	$ (31,490)	(31,490)	0
Other income, net	12,281	10,918	1,363
Income tax expenses	63,379	63,058	321
Net loss	(87,201)	(88,243)	1,042
Foreign currency translation adjustments	37,031	37,111	(80)
Change in unrealized gain for equity securities with readily determinable fair value	0	882	(882)
Other comprehensive income	37,031	37,993	(962)
Comprehensive loss	(50,170)	(50,250)	80
Basic net loss per share attributable to Sohu.com Inc.	(2.39)	(2.41)	0.02
Diluted net loss per share attributable to Sohu.com Inc.	(2.39)	(2.41)	0.02

The following table illustrates the effect of the adoption of ASU 2016-01 by presenting a comparison of selected line items from the Group's condensed consolidated balance sheet as of March 31, 2018, as actually reported and as they would have been reported under standards previously in effect (in thousands, except per share data):

	As reported	Without adoption of ASU 2016-01	Effect of change Higher/(Lower)
Long term investments, net	$ 98,612	98,416	196
Deferred tax liability	95,632	95,517	115
Accumulated other comprehensive income	44,220	52,683	(8,463)
Accumulated deficit	(327,537)	(335,915)	8,378

The adoption of ASU 2016-01 did not change the Group's condensed consolidated statement of cash flows for the three months ended March 31, 2018.

Equity Investments Accounted for Using the Equity Method

Investment in Fox Financial

Under an agreement between Sohu and Fox Financial entered into in August 2014, Sohu invested $4.8 million and $16.1 million in Fox Financial on August 2014 and April 2015, respectively. In February 2016, Sohu invested an additional $10.5 million in Fox Financial. Sohu accounted for its investments in Fox Financial under long-term investments. These investments include both preferred shares and common shares. Sohu elected to account for its investment in Fox Financial's preferred shares at cost less impairments, adjusted by observable price changes, since they were not considered to be common shares in substance and had no readily determinable fair value. There was no any observable price change in our investment in Fox Financial in the three months ended March 31, 2018. Sohu accounted for its investment in Fox Financial's common shares under the equity method, since Sohu can exercise significant influence through its board seat in Fox Financial, but does not own a majority of Fox Financial's equity capital or control Fox Financial.

In March 2017, Fox Financial issued additional common shares to new investors, while shares held by Sohu remained unchanged. As a result, Sohu's shareholding percentage of common shares was diluted from 7% to 6%. The Group recognized dilution gain of $0.7 million in other income for the three months ended March 31, 2017. As of March 31, 2018, the carrying value of Sohu's investment in Fox Financial was $24.5 million.

Equity Investments with Readily Determinable Fair Values

Effective as of January 1, 2018, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification (changes in fair value previously reported in other comprehensive income) for equity securities with readily determinable fair values.

Equity investments with readily determinable fair values 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.

Investment in Keyeast Co., Ltd. ("Keyeast")

On August 12, 2014, Sohu acquired approximately 6% of the total outstanding common shares of Keyeast, a Korean-listed company, for a purchase price of $15.1 million. The Sohu Group classified this investment as equity investments with readily determinable fair values under long-term investments, and reported it at fair value using a market approach based on Keyeast's stock price on the South Korean stock market. The fair value of this investment was continually below its original cost for a twelve-month period ended July 31, 2017. Management considered the decline in the fair value to be other-than-temporary, and the Sohu Group recognized an impairment loss of $5.8 million in other income /(loss) in the Sohu Group's consolidated statements in the third quarter of 2017. Starting from January 1, 2018, Sohu applied ASU 2016-01 by means of a reclassification of $0.9 million from other comprehensive income to accumulated deficit in relation to the fair value change of investment in Keyeast previously reported in other comprehensive income. In the first quarter of 2018, Sohu disposed of all of its shares in Keyeast for $11.2 million, and recognized a disposal gain of $1.0 million in other income /(loss) in the Sohu Group's consolidated statements.

Investment in Hylink Digital Solution Co., Ltd ("Hylink")

On May 5, 2011, Sohu acquired 2% of the equity interests of Hylink for a purchase price of $2.3 million (RMB15 million). Given that Sohu neither controls nor has significant influence over Hylink, and the equity interest of Hylink did not have a readily determinable fair value, Sohu has previously accounted for this investment using the cost method. On August 2, 2017, Hylink completed its IPO on the Shanghai Stock Exchange. Upon the completion of Hylink's IPO, Sohu's interest in Hylink was diluted to 1.5% of Hylink's total ordinary shares then outstanding. The Sohu Group reclassified this investment as equity investments with readily determinable fair values with the investment's fair value measured based on Hylink's stock price on the Shanghai Stock Exchange. Starting from January 1, 2018, Sohu applied ASU2016-01 by means of a reclassification of $6.6 million (RMB43.2 million) from other comprehensive income to accumulated deficit in relation to the fair value change of investment in Hylink previously reported in other comprehensive income. As of March 31, 2018, the fair value of the Hylink equity securities held by Sohu was $12.7 million (RMB80.0 million) and Sohu recognized unrealized gain representing a change in fair value of $1.2 million (RMB7.4 million) for the three months ended March 31, 2018 in other income /(loss) in the Sohu Group's consolidated statements.

Equity Investments without Readily Determinable Fair Values

Based on ASU 2016-01, an entity will be able to elect to record equity investments without readily determinable fair values and not accounted for by the equity method at cost, less impairment, adjusted for subsequent observable price changes. Entities that elect this measurement alternative will report changes in the carrying value of the equity investments in current earnings.

If this measurement alternative is elected, changes in the carrying value of the equity investment will be required to be made whenever there are observable price changes in orderly transactions for the identical or similar investment of the same issuer. The implementation guidance notes that an entity should make a "reasonable effort" to identify price changes that are known or that can reasonably be known.

Long-term Investment in Zhihu

As of March 31, 2018, Sogou had invested a cumulative total of $18.9 million in 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 elected to account for the investment in Zhihu at cost less impairments, adjusted by observable price changes, since Sogou does not have significant influence over Zhihu and its investment in Zhihu is without readily determinable fair value. There was no observable price change for the three months ended March 31, 2018.

Long-term Investment in Hainan Yun Jiang

In March 2018, Sogou invested $12.7 million (RMB80 million) in Hainan Yun Jiang Technology Co., Ltd.("Hainan Yun Jiang"), a high-tech enterprise that engages primarily in the business of operating on-line and off-line education with artificial intelligence as its core. Sogou elected to account for the investment in Hainan Yun Jiang at cost less impairments, adjusted by observable price changes, since Sogou does not have significant influence over Hainan Yun Jiang and its investment in Hainan Yun Jiang is without readily determinable fair value. There was no observable price change for the three months ended March 31, 2018.

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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, short-term bank loans 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. The Group classifies the valuation technique as Level 2 of fair value measurements.

Short-term Bank Loans

For short-term bank loans, the rates of interest under the agreements with the lending banks were determined based on the prevailing interest rates in the market. The Sohu Group estimated fair values using the discounted cash flow method and classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

- Factoring contract with recourse with HongKong and Shanghai Banking Corporation Limited (“HSBC”)

In May 2017, Sohu entered into a one year factoring contract with recourse with HSBC, pursuant to which Sohu may borrow from HSBC from time to time up to a combined aggregate of RMB180.0 million (or $28.6 million), which is the upper limit reviewed by HSBC at least annually. The loan is secured by up to RMB198.0 million (or $31.5 million) of Sohu’s accounts receivable and guaranteed by Sohu Media. Interest will accrue on the principal amounts of the loans outstanding at an annual rate that will be agreed to by HSBC and Sohu upon drawdown. As of March 31, 2018 and December 31, 2017, the total outstanding balance of the loan was both nil.

- Credit agreements with Ping An Bank Co., Ltd. (“Ping An Bank”)

In May 2017, Sohu entered into credit agreements with Ping An Bank pursuant to which Sohu was entitled to borrow from Ping An Bank from time to time until May 18, 2020 up to a combined aggregate of RMB2.50 billion (or $397.6 million). The loan was initially secured by pledges of Sohu’s two buildings and guaranteed by Sohu.com (Game) Limited (“Sohu Game”). The initial interest rate for the loans was an annual rate equal to 115% of the rate published by the PBOC. In July 2017, Sohu entered into an amendment of its loan arrangements with Ping An Bank pursuant to which interest on outstanding principal amounts will accrue at a rate designated separately upon each drawdown based on the benchmark loan rate published by the PBOC with reference to then prevailing market interest rates. In July 2017, Sohu drew down from Ping An Bank pursuant to the loan arrangements a loan with a term of 12 months in the amount of RMB400.0 million (or approximately $63.6 million) and an interest rate of 6.525% per annum, which is 150% of the rate published by the PBOC as of the date of the drawdown. In September 2017, Sohu entered into another amendment of its loan arrangements with Ping An Bank pursuant to which the maximum amount that Sohu is entitled to borrow has been reduced from RMB2.50 billion (or $397.6 million) to RMB600 million (or $95.4 million), and one of Sohu’s buildings was released from the pledge. As of March 31, 2018 and December 31, 2017, the total outstanding balance of the loan was RMB400 million (or $63.6 million) and RMB400 million (or $61.2 million), respectively.

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.

In September 2017, Sohu entered into credit agreements with the Industrial and Commercial Bank of China Limited (“ICBC”) pursuant to which Sohu will be entitled to borrow from ICBC from time to time until March 31, 2018 up to a combined aggregate of RMB800 million (or $127.2 million). The outstanding principal amount of the loan will be payable in four equal installments, with the first installment payable 18 months after the drawdown and the other three installments payable semi-annually at the end of each of the three successive six-month periods after the first installment payment. The loan is secured by the pledge of Sohu’s building that was released upon the amendment of Sohu’s loan arrangements with Ping An Bank. Interest will accrue on the principal amounts of the loans outstanding at an annual rate equal to the Loan Prime Rate (“LPR”) published by the National Interbank Funding Center, plus 1.2%. As of March 31, 2018 and December 31, 2017, the total outstanding balance of the loan was RMB800 million (or $127.2 million) and RMB800 million (or $122.4 million).

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7. GOODWILL

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

	Sohu	Sogou	Changyou	Total
Balance as of December 31, 2017				
Goodwill	$ 73,941	5,908	181,421	261,270
Accumulated impairment losses	(35,788)	0	(153,917)	(189,705)
	$ 38,153	$5,908	$ 27,504	$ 71,565
Transactions in 2018				
Foreign currency translation adjustment	631	231	675	1,537
Balance as of March 31, 2018	$ 38,784	$6,139	$ 28,179	$ 73,102
Balance as of March 31, 2018				
Goodwill	$ 71,030	$6,139	$ 182,096	$ 259,265
Accumulated impairment losses	(32,246)	0	(153,917)	(186,163)
	$ 38,784	$6,139	$ 28,179	$ 73,102

8. TAXATION

Sohu.com Inc. is subject to United States ("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.

PRC Corporate Income Tax

Principal Entities Qualified as HNTEs

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 a 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 HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% CIT rate.

As of March 31, 2018, 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 New Momentum Information Technology Co., Ltd. ("Sohu New Momentum"). Sohu New Momentum qualified as an HNTE for the years 2016 through 2018, and will need to re-apply for HNTE qualification in 2019.
- Beijing Sohu Internet Information Service Co., Ltd. ("Sohu Internet"). Sohu Internet qualified as an HNTE for the years 2015 through 2017, and will need to re-apply for HNTE qualification in 2018.
- Sohu Media and Guangzhou Qianjun. Sohu Media and Guangzhou Qianjun re-applied for HNTE qualification and received approval in November 2017 and December 2017, respectively. New Media and Guangzhou Qianjun are entitled to continue to enjoy the beneficial tax rate as HNTEs for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.

For Sogou's Business

- Beijing Sogou Information Service Co., Ltd. ("Sogou Information"). Sogou Information qualified as an HNTE for the years 2015 through 2017, and will need to re-apply for HNTE qualification in 2018.
- Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology"). Sogou Technology re-applied for HNTE qualification and received approval in December 2017. Sogou Technology is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.

- Beijing Sogou Network Technology Co., Ltd. (“Sogou Network”). Sogou Network qualified as an HNTE for the years 2016 through 2018, and will need to re-apply for HNTE qualification in 2019.

For Changyou’s Business

- Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”) and Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”). Gamease and AmazGame re-applied for HNTE qualification and received approval in October 2017 and December 2017, respectively. Gamease and AmazGame are entitled to continue to enjoy the beneficial tax rate as HNTEs for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.
- Beijing Changyou Gamespace Software Technology Co., Ltd. (“Gamespace”). Gamespace qualified as an HNTE for the years 2016 through 2018, and will need to re-apply for HNTE qualification in 2019.

Principal Entities Qualified as Software Enterprises and KNSEs

The CIT Law and its implementing regulations provide that a “Software Enterprise” is entitled to 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” (a “KNSE”) is entitled to a further reduced preferential income tax rate of 10%. Enterprises wishing to enjoy the status of a Software Enterprise or a KNSE must perform a self-assessment each year to ensure they meet the criteria for qualification and file required supporting documents with the tax authorities before using the preferential CIT rates. These enterprises will be subject to the tax authorities’ assessment each year 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 the relevant authorities determine that it fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise’s Software Enterprise/KNSE status.

For Sohu’s Business

- Sohu New Momentum. In 2017, Sohu New Momentum completed a self-assessment, filed required supporting documents, and was qualified as a Software Enterprise, which entitled it to the first year of an income tax rate reduction from 25% to 12.5% for 2016. Sohu New Momentum will follow the same process in 2018 to entitle it to the second year of an income tax rate reduction from 25% to 12.5% for 2017.

For Sogou’s Business

- Sogou Technology. In 2017, Sogou Technology completed a self-assessment and filed required supporting documents for KNSE status for 2016. In 2017, Sogou Technology was qualified as a KNSE after the relevant government authorities’ assessment and was entitled to a preferential income tax rate of 10% for 2016. Sogou Technology will follow the same process in 2018 for KNSE status for 2017.

For Changyou’s Business

- AmazGame. In 2017, AmazGame completed a self-assessment and filed required supporting documents for KNSE status for 2016. Also in 2017, AmazGame was qualified as a KNSE after the relevant government authorities’ assessment and was entitled to a preferential income tax rate of 10% for 2016. AmazGame will follow the same process in 2018 for KNSE status for 2017.

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%.

Before 2018, 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"), and adopted as a policy for such subsequent years for its PRC subsidiaries a limit on payment of dividends to their direct overseas parent companies of one-half of such PRC subsidiaries' earnings. In 2018, in order to facilitate the distribution of a special cash dividend of $500.0 million declared by Changyou's board of directors on April 5, 2018, Changyou revised its policy for its PRC subsidiaries with respect to their distribution of cash dividends. Under the revised policy, all of Changyou's PRC subsidiaries (not including the VIEs and their subsidiaries) will be able to distribute their cumulative available and undistributed earnings to their direct overseas parent companies in future periods. The change will result in Changyou's accrual of additional withholding income taxes of approximately $47.0 million for the period before December 31, 2017, which will be recognized in the Sohu Group's consolidated financial statements for the quarter ended March 31, 2018. As of March 31, 2018, the Sohu Group had accrued deferred tax liabilities related to Changyou in the amount of $82.7 million for PRC withholding tax.

With the exception of that dividend, the Sohu Group does not intend to have any of its PRC subsidiaries or VIEs distribute any undistributed profits of such subsidiaries or VIEs to their direct overseas parent companies, but rather intends that such profits will be permanently reinvested by such subsidiaries and VIEs 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 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 21% for taxable years beginning after December 31, 2017 and of up to 35% for prior tax years. U.S. federal tax legislation signed into law on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act (the "U.S. Tax Reform"), significantly modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time transition tax on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings. Taxpayers may elect to pay the one-time transition tax over eight years, or in a single lump sum payment.

The U.S. Tax Reform also includes provisions for a new tax on global intangible low-taxed income ("GILTI") effective for tax years of foreign corporations beginning after December 31, 2017. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of controlled foreign corporations ("CFCs"), subject to the possible use of foreign tax credits and a deduction equal to 50 percent to offset the income tax liability, subject to some limitations.

The Company's management is still evaluating the effect of the U.S. Tax Reform on Sohu.com Inc. Management may update its judgment of that effect based on its continuing evaluation and on future regulations or guidance issued by the U.S. Department of the Treasury.

To the extent that portions of Sohu.com Inc.'s U.S. taxable income, such as Subpart F income or GILTI, 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. If dividends that Sohu.com Inc. receives from its subsidiaries are determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. will generally not be required to pay U.S. corporate income tax on those dividends. Any liabilities for U.S. corporate income tax will be accrued in the Company's consolidated statements of comprehensive income and estimated tax payments will be made when required by U.S. law.

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One-Time Transition Tax Related to U.S. Tax Reform

In the fourth quarter of 2017, the Group recognized a one-time transition tax of $218.5 million that represented management's estimate of the amount of U.S. corporate income tax based on the deemed repatriation to the United States of Sohu's share of previously deferred earnings of certain non-U.S. subsidiaries of Sohu mandated by the U.S. Tax Reform, offset by a reduction of $3.7 million in liability for deferred U.S. income tax as a result of the U.S. Tax Reform. Sohu.com Inc. may make an election to pay the one-time transition tax over eight years commencing in April 2019, or pay in a single lump sum. The actual impact of the U.S. Tax Reform on Sohu.com Inc. may differ from management's estimates, and management may update its judgments based on future regulations or guidance issued by the U.S. Department of the Treasury. There is no development for the impact from U.S. Tax Reform on Sohu.com Inc. during the first quarter of 2018, so the balance of one-time transition tax remains unchanged as of March 31, 2018.

Uncertain Tax Positions

The Sohu 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 Group's income and transactions. In order to assess uncertain tax positions, the 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.

The Group did not have any significant penalties or significant interest associated with tax positions for the three months ended March 31, 2018, nor did the Group have any significant unrecognized uncertain tax positions for the three months ended March 31, 2018.

9. COMMITMENTS AND CONTINGENCIES

Contractual Obligations

The following table sets forth our contractual obligations as of March 31, 2018 (in thousands):

As of March 31,	2018	2019	2020	2021	2022	Thereafter	Total Payments Required
Purchase of cinema advertisement slot rights	54,015	59,022	32,845	12,805	1,356	1,352	161,395
Purchase of bandwidth	72,087	2,569	1,242	340	0	0	76,238
Purchase of content and services – video	23,311	19,405	1,179	0	0	0	43,895
Operating lease obligations	14,604	9,431	4,087	77	11	0	28,210
Expenditures for operating rights for licensed games with technological feasibility	11,681	3,531	2,633	0	0	0	17,845
Purchase of content and services – others	10,251	382	93	33	0	0	10,759
Fees for operating rights for licensed games in development	500	0	0	0	0	0	500
Others	4,850	1,301	0	0	0	0	6,151
Total Payments Required	191,299	95,641	42,079	13,255	1,367	1,352	344,993

Litigation

The Sohu Group is a party to various litigation matters which it considers routine and incidental to its business. The Sohu Group records a liability when the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. The Sohu Group evaluates, on a regular basis, developments in litigation matters that could affect the amount of liability that has been previously accrued and makes adjustments as appropriate. Management believes that the total liabilities to the Sohu Group that may arise as a result of currently pending legal proceedings will not have a material adverse effect on the Group's business, results of operations, financial condition and cash flows. As of March 31, 2018, Sohu and Changyou had no significant litigation contingencies, and Sogou had recorded estimated liabilities of $3.8 million for litigation contingencies as a component of accrued liabilities related to its currently pending proceedings.

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 advertising, 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 10 - 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.

10. 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 March 31, 2018, the aggregate amount of these loans was $7.7 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 March 31, 2018, the registered capital and PRC statutory reserves of the consolidated VIEs totaled $71.9 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 March 31, 2018, 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 March 31, 2018, 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 March 31, 2018, High Century held a 100% interest in this entity.

- Donglin

  Beijing Sohu Donglin Advertising Co., Ltd. ("Donglin") was incorporated in 2010. As of March 31, 2018, Sohu Internet held a 100% interest in this entity.

- Tianjin Jinhu

  Tianjin Jinhu Culture Development Co., Ltd. ("Tianjin Jinhu") was incorporated in 2011. In October 2016, Ye Deng transferred its 50% equity interest in Tianjin Jinhu to Xiufeng Deng. As of March 31, 2018, Xiufeng Deng and Xuemei Zhang each held a 50% interest in this entity.

- Guangzhou Qianjun

  Guangzhou Qianjun was acquired in November 2014. As of March 31, 2018, 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 March 31, 2018, 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 March 31, 2018, 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 March 31, 2018, High Century 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 March 31, 2018, Gamease held a 100% interest in this entity.

- Guanyou Gamespace

Beijing Guanyou Gamespace Digital Technology Co., Ltd. ("Guanyou Gamespace") was incorporated in 2010. As of March 31, 2018, Beijing Changyou Star Digital Technology Co., Ltd ("Changyou Star") held a 100% interest 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, 2017	March 31, 2018
ASSETS:		
Cash and cash equivalents	$ 43,618	$ 17,280
Accounts receivable, net	95,305	80,468
Prepaid and other current assets	26,755	30,302
Short-term investments	12,303	19,132
Intra-Group receivables due from the Company's subsidiaries	398,135	436,640
Total current assets	576,116	583,822
Long-term investments, net	32,266	51,054
Fixed assets, net	2,414	2,448
Intangible assets, net	11,719	10,873
Goodwill	37,291	38,056
Other non-current assets	2,614	2,542
Total assets	$ 662,420	$688,795
LIABILITIES:		
Accounts payable	$ 53,842	$ 83,403
Accrued liabilities	76,883	66,470
Receipts in advance and deferred revenue	46,939	48,895
Other current liabilities	97,991	87,950
Intra-Group payables due to the Company's subsidiaries	197,367	231,676
Total current liabilities	473,022	518,394
Long-term taxes payable	14,293	14,794
Deferred tax liabilities	3,451	3,853
Intra-Group payables due to the Company's subsidiaries	20,560	20,678
Total liabilities	$ 511,326	$557,719

	Three months ended March 31,	
	2017	2018
Net revenue	$ 190,708	$ 210,900
Net income /(loss)	9,432	(21,909)

	Three months ended March 31,	
	2017	2018
Net cash used in operating activities	$ (18,854)	$ (3,624)
Net cash provided by /(used in) investing activities	4,278	(24,559)
Net cash provided by financing activities	0	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

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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.

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.

Business Arrangements between Subsidiaries and Consolidated VIEs

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.

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.

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.

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.

11. 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 three months ended March 31, 2018 and 2017, the Company did not repurchase any shares of its common stock.

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Stock Incentive Plans

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.

Sohu.com Inc. Share-based Awards

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 March 31, 2018, 587,530 shares were available for grant under the Sohu 2010 Stock Incentive Plan.

Summary of Stock Option Activity

In February 2015, May 2016, September 2017 and November 2017, 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, 13,000, 32,000 and 6,000 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.

As of March 31, 2018, 562,500 of these stock options had been granted and had become vested on their respective vesting dates, as a mutual understanding of the subjective performance targets was 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 their aggregate fair values, at their respective grant dates, of $22.4 million.

A summary of stock option activity under the Sohu 2010 Stock Incentive Plan as of and for the three months ended March 31, 2018 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, 2018	223	$		$
Granted	131	0.001		
Exercised	(18)	0.001		
Forfeited or expired	0			
Outstanding at March 31, 2018	336	0.001	6.86	11,031
Vested at March 31, 2018	336	0.001	6.86	11,031
Exercisable at March 31, 2018	336	0.001	6.86	11,031

Note (1): The aggregated intrinsic value in the preceding table represents the difference between Sohu's closing stock price of $32.88 on March 31, 2018 and the nominal exercise prices of the stock options.

For the three months ended March 31, 2018 and 2017, total share-based compensation expense recognized for these stock options was negative $4.0 million and negative $2.5 million, respectively. The total fair values of these Sohu share options vested on their respective vesting dates for the three months ended March 31, 2018 and 2017 were $4.5 million and $7.0 million, respectively. For the three months ended March 31, 2018 and 2017, total intrinsic value of share options exercised was $0.6 million and $3.6 million, respectively.

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Summary of Restricted Stock Unit Activity

A summary of restricted stock unit activity under the Sohu 2010 Stock Incentive Plan as of and for the three months ended March 31, 2018 is presented below:

Restricted Stock Units	Number of Units (in thousands)	Weighted-Average Grant-Date Fair Value
Unvested at January 1, 2018	1	$ 72.92
Granted	0	—
Vested	(1)	72.92
Forfeited	0	—
Unvested at March 31, 2018	0	—
Expected to vest after March 31, 2018	0	—

For the three months ended March 31, 2018 and 2017, total share-based compensation expense recognized for restricted stock units was $nil and $0.1 million, respectively.

As of March 31, 2018, there was $nil of unrecognized compensation expense related to unvested restricted stock units. The total fair value on their respective vesting dates of restricted stock units that vested during the three months ended March 31, 2018 and 2017 was nil and $86,078, respectively.

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 March 31, 2018, Sogou had contractually granted options for the purchase of 39,700,127 Sogou ordinary shares under the 2010 Sogou Share Incentive Plan.

Of the contractually-granted Sogou share options for the purchase of 39,700,127 Sogou Class A Ordinary Shares, options for the purchase of 30,251,935 Sogou Class A Ordinary Shares vest and become exercisable in four equal installments or in two to four installments over varying periods upon a service period requirement being met, as well as Sogou's achievement of performance targets for the corresponding period. 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 March 31, 2018, Sogou had granted options for the purchase of 27,051,057 Sogou Class A Ordinary Shares under the 2010 Sogou Share Incentive Plan. As of March 31, 2018, options for the purchase of 26,800,559 Sogou Class A 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 25,180,458 Sogou Class A Ordinary Shares had been exercised.

Of the contractually granted options for the purchase of 39,700,127 Sogou Class A Ordinary Shares, vesting of options for the purchase of 7,250,000 Class A Ordinary Shares was subject to completion of an IPO and, of such options, options for the purchase of 7,200,000 Class A Ordinary Shares vest and become exercisable in five equal installments, with (i) the first installment vesting upon 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 completion of Sogou's IPO. The remaining options for the purchase of 50,000 Class A Ordinary Shares will vest and become exercisable on July 21, 2018. None of the options had become vested, exercisable, or exercised.

Of the contractually-granted Sogou share options for the purchase of 39,700,127 Sogou Class A Ordinary Shares, options for the purchase of 2,198,192 Sogou Class A Ordinary Shares vest and become exercisable in four equal installments or in two to four installments over varying periods upon a service period requirement being met. Of these options, options for the purchase of 2,181,192 Sogou Class A Ordinary Shares that had previously included as vesting conditions a service period requirement as well as Sogou's achievement of performance targets for the corresponding period were amended in the first quarter of 2018 to remove as a condition of vesting Sogou's achievement of performance targets for the corresponding period. None of the options had become vested or had been exercised as of March 31, 2018.

As of March 31, 2018, for purposes of recognition of share-based compensation expense, Sogou had granted Sogou share options for the purchase of 36,499,249 Sogou Class A Ordinary Shares, of which options for the purchase of

11,318,791 Sogou Class A Ordinary Shares were outstanding. A summary of Sogou share option activity under the Sogou 2010 Share Incentive Plan as of and for the three months ended March 31, 2018 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) Aggregate
Outstanding at January 1, 2018	9,753	$ 0.462	5.56	
Granted	1,696	0.001		
Exercised	(17)	0.001		
Forfeited or expired	(113)	0.001		
Outstanding at March 31, 2018	11,319	0.398	5.81	88,876
Vested at March 31, 2018 and expected to vest thereafter	10,952	0.411	5.70	85,846
Exercisable at March 31, 2018	1,620	0.001	5.43	13,346

Note (1): The aggregate intrinsic values in the preceding table represent the difference between Sogou's closing price of $8.25 per Class A Ordinary Share on March 31, 2018 and the exercise prices of the share options.

For the three months ended March 31, 2018 and 2017, total share-based compensation expense recognized for Sogou share options under the Sogou 2010 Share Incentive Plan was $4.2 million and $0.3 million, respectively. As of March 31, 2018, there was $19.6 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 2.27 years.

For the three months ended March 31, 2018 and 2017, the total intrinsic value of options exercised was $0.1 million and $443, respectively.

Prior to the completion of Sogou's IPO, the fair values of the ordinary shares of Sogou were assessed using the income approach /discounted cash flow method or based on the mid-point of the estimated Sogou IPO price range, in each case 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. After the completion of Sogou's IPO, the fair values of the ordinary shares of Sogou was determined based on the market price of Sogou's ADSs.

The fair value of the Sogou share options granted to Sogou management and key employees was estimated on their respective date of grant using the binomial valuation model with the following assumptions used:

Assumptions Adopted	
Average risk-free interest rate	2.61%~3.51%
Exercise multiple	2~3
Expected forfeiture rate (post-vesting)	0%-12%
Weighted average expected option life	9
Volatility rate	39%~47%
Dividend yield	0%
Weighted average fair value of share options	12.28

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 three was applied for management and a multiple of two was applied for other key employees. Sogou estimated the forfeiture rate to be 0% or 1% for the Sogou share options granted to Sogou management and 12% for the Sogou share options granted to Sogou's other key employees. As Sogou's ordinary shares had been publicly traded for less than six months as of March 31, 2018, the expected volatility at the valuation date was estimated based on the historical volatility of guideline companies for the periods before the grant dates 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%.

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Sohu Management Sogou Share Option Arrangement

Under an arrangement (the "Sohu Management Sogou Share Option Arrangement") that was approved by the boards of directors of Sohu and Sogou in March 2011, Sohu has the right to provide to members of Sohu's Board of Directors, management and key employees of the Sohu Group the opportunity to purchase from Sohu up to 12,000,000 Class A 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 Class A Ordinary Shares previously held by Sohu and 3,200,000 are Sogou Class A 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 March 31, 2018, Sohu had contractually granted options for the purchase of 8,305,000 Sogou Class A Ordinary Shares under the Sohu Management Sogou Share Option Arrangement.

Of the contractually-granted Sogou share options for the purchase of 8,305,000 Sogou Class A Ordinary Shares, options for the purchase of 8,290,000 Sogou Class A 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. 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 March 31, 2018, Sohu had granted Sogou share options for the purchase of 8,290,000 Sogou Class A Ordinary Shares under the Sohu Management Sogou Share Option Arrangement. As of March 31, 2018, options for the purchase of 8,290,000 Sogou Class A 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 8,290,000 Sogou Class A Ordinary Shares had been exercised.

Of the contractually-granted options for the purchase of 8,305,000 Sogou Class A Ordinary shares, options for the purchase of 15,000 Sogou Class A Ordinary Shares that were granted to members of Sohu's Board of Directors vested and became exercisable in 2015, as the service period requirement for vesting had been met. As of March 31, 2018, of such vested options, options for the purchase of 6,000 Sogou Class A Ordinary Shares had been exercised.

As of March 31, 2018, for purposes of recognition of share-based compensation expense, Sohu had granted options for the purchase of 8,305,000 Sogou Class A Ordinary Shares, of which options for the purchase of 9,000 Sogou Class A Ordinary Shares were outstanding. A summary of Sogou share option activity under the Sohu Management Sogou Share Option Arrangement as of and for the three months ended March 31, 2018 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, 2018	9	$ 0.001	7.38	
Granted	0			
Exercised	0			
Forfeited or expired	0			
Outstanding at March 31, 2018	9	0.001	7.14	$ 74
Vested at March 31, 2018	9	0.001	7.14	74
Exercisable at March 31, 2018	9	0.001	7.14	74

Note (1): The aggregate intrinsic value in the preceding table represents the difference between Sogou's closing price of $8.25 per Class A ordinary share on March 31, 2018 and the exercise prices of the share options.

Sogou 2017 Share Incentive Plan

In October 2017, Sogou adopted a share incentive plan (the "Sogou 2017 Share Incentive Plan") that provides for the issuance of up to an aggregate of 28,000,000 Sogou Class A Ordinary Shares. Share incentive awards may be granted under the Sogou 2017 Share Incentive Plan to Sogou's management and employees and of any of its present or future parents or subsidiaries. The maximum term of any share incentive award granted under the Sogou 2017 Share Incentive Plan is ten years from the grant date. As of March 31, 2018, none of the options had been contractually granted under the 2017 Sogou Share Incentive Plan.

Sogou Share Repurchase Transaction

In January 2017, Sogou repurchased 720,000 of its Pre-IPO Class A Ordinary Shares from the former President and Chief Financial Officer of the Sohu Group for an aggregate price of $7.2 million. Approximately $4.0 million incremental share-based compensation expense associated with the repurchase, which was made pursuant to letter agreements entered into in 2016 between the Sohu Group and the former President and Chief Financial Officer of the Sohu Group in connection with her resignation, which amount is equal to the excess of the repurchase price over the fair value of Sogou Pre-IPO Class A Ordinary Shares as of the repurchase date, related to events occurring in 2016 and was recorded in the Sohu Group's statements of comprehensive income for the first quarter of 2017. The Group assessed the impact and determined that it was not material to the quarter ended December 31, 2016 and March 31, 2017.

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 resulting 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 original 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 continued to be recognized over the original remaining vesting period. As of March 31, 2018, 10,327,500 Sogou Class A Ordinary Shares that were purchased upon the early exercise of options granted under the Sogou 2010 Share Incentive Plan remained unvested in accordance with the vesting requirements under the original option agreements. All Sogou Class A Ordinary Shares purchased upon such early exercise that have become vested have been included in the disclosures under the heading "Sogou 2010 Share Incentive Plan" and "Sohu Management Sogou Share Option Arrangement" above.

In the first quarter of 2018, Sogou changed the vesting conditions of 2,181,192 shares of Sogou share options contractually granted under the Sogou 2010 Share Incentive Plan by removing as a condition of vesting Sogou's achievement of performance targets for the period corresponding to the vesting schedule. Of these options, 1,601,427 share options had not been deemed granted, because their performance targets for the current period had not been set, so the removal of the performance targets resulted in these options becoming service-based and being deemed granted immediately upon the effectiveness of the changes. For the remaining 579,765 Sogou share options, which had been deemed granted, the removal of the performance targets constituted a modification. The modification was not considered substantive, because their performance targets had been achieved before the modification. Based on valuation results, no incremental fair value related to these Sogou ordinary shares was recognized in connection with the modification, and the remaining share-based compensation expense for these Sogou ordinary shares continued to be recognized over the remaining vesting period.

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

Certain persons who became Sogou employees when Tencent's Soso search and 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. Following the transfer of the businesses, 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 and 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.

For the three months ended March 31, 2018 and 2017, share-based compensation expense of $32,694 and $298, respectively, related to these Tencent restricted share units was recognized in the Group's consolidated statements of comprehensive income. As of March 31, 2018, there was $30,246 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 0.26 years.

Changyou.com Limited Share-based Awards

Changyou 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.

All of the restricted Changyou ordinary shares and restricted share units granted under the Changyou 2008 Share Incentive Plan were vested as of December 31, 2017, as the requisite service period for all these awards had been completed. There has been no share-based compensation expense recognized under the Changyou 2008 Share Incentive Plan since then.

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, Changyou's Board approved an increase in the number of Class A ordinary shares reserved under the Changyou 2014 Share Incentive Plan 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 March 31, 2018, 2,988,000 shares were available for grant under the Changyou 2014 Share Incentive Plan.

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.

As of March 31, 2018, 1,999,000 of these Changyou share options had been granted and had become vested on their respective vesting dates, 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 of $28.6 million for these granted share options was adjusted and fixed based on the aggregate amounts of the fair values of these granted share options at their respective grant dates.

A summary of share option activity under the Changyou 2014 Share Incentive Plan as of and for the three months ended March 31, 2018 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, 2018	947	$ 0.01	7.01	$ 17,240
Granted	0	0.01		
Exercised	(400)	0.01		
Forfeited or expired	0			
Outstanding at March 31, 2018	547	0.01	6.85	7,622
Vested at March 31, 2018	547	0.01		7,622
Exercisable at March 31, 2018	547	0.01		

Note (1): The aggregated intrinsic value in the preceding table represents the difference between Changyou's closing price of $27.89 per ADS, or $13.95 per Class A ordinary share, on March 31, 2018 and the nominal exercise price of share option.

For the three months ended March 31, 2018 and 2017, total share-based compensation expense recognized for these share options under the Changyou 2014 Share Incentive Plan was negative $2.4 million and $5.5 million, respectively. The total fair values of these Changyou share options vested on their respective vesting dates for the three months ended March 31, 2018 and 2017 were both nil. The total intrinsic value of share options exercised for the three months ended March 31, 2018 and 2017 was $5.6 million and $0.3 million, respectively.

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 March 31, 2018, 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 March 31, 2018, 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 March 31, 2018, options for the purchase of 4,972,800 Sohu Video ordinary shares were vested.

For the three months ended March 31, 2018 and the three months ended March 31, 2017, total share-based compensation expense recognized for vested options under the Video 2011 Share Incentive Plan was negative $0.1 million and $0.2 million, respectively.

The fair value as of March 31, 2018 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	3.19%
Exercise multiple	2.8
Expected forfeiture rate (post-vesting)	14%
Weighted average expected option life	3.8
Volatility rate	44.2%
Dividend yield	0.00%
Fair value	0.61

12. NONCONTROLLING INTEREST

The noncontrolling interests in the Sohu Group's consolidated financial statements primarily consist of noncontrolling interests for Sogou and Changyou.

Noncontrolling Interest in the Consolidated Balance Sheets

As of March 31, 2018 and December 31, 2017, noncontrolling interest in the consolidated balance sheets was $1.10 billion and $1.07 billion, respectively.

	As of	
	December 31, 2017	March 31, 2018
Sogou	$ 623,785	$ 648,867
Changyou	442,818	449,389
Total	$ 1,066,603	$ 1,098,256

Noncontrolling Interest of Sogou

As of March 31, 2018 and December 31, 2017, noncontrolling interest of Sogou of $648.9 million and $623.8 million, respectively, was recognized in the Sohu Group's consolidated balance sheets, both representing an economic interest of 66%, in Sogou's net assets held by shareholders other than Sohu.com Inc. and reflecting the reclassification of Sogou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest.

Noncontrolling Interest of Changyou

As of March 31, 2018 and December 31, 2017, noncontrolling interest of Changyou of $449.4 million and $442.8 million, respectively, was recognized in the Sohu Group's consolidated balance sheets, representing a 32% 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 /(Loss)

For the three months ended March 31, 2018 and 2017, the Sohu Group had net income of $5.6 million and net income of $17.9 million, respectively, attributable to the noncontrolling interest in the consolidated statements of comprehensive income /(loss).

	Three Months Ended March 31,	
	2017	2018
Sogou	$ 8,398	$ 10,135
Changyou	9,508	(4,518)
Other	(11)	0
Total	$ 17,895	$ 5,617

Noncontrolling Interest of Sogou

For the three months ended March 31, 2018 and 2017, net income of $10.1 million and $8.4 million, respectively, attributable to the noncontrolling interest of Sogou was recognized in the Sohu Group's consolidated statements of comprehensive income, representing Sogou's net income /(loss) attributable to shareholders other than Sohu.com Inc.

Noncontrolling Interest of Changyou

For the three months ended March 31, 2018 and 2017, net loss of $4.5 million and net income $9.5 million, respectively, attributable to the noncontrolling interest of Changyou was recognized in the Sohu Group's consolidated statements of comprehensive income /(loss), representing a 32% and 31% economic interest, respectively, in Changyou attributable to shareholders other than Sohu.com Inc.

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 months ended March 31, 2018 and 2017, 347,000 and 303,000 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.

Sogou's Net income /(loss) Attributable to Sohu.com Inc.

Before Sogou's IPO

Before Sogou's IPO, Sogou's net income /(loss) attributable to Sohu.com Inc. was determined using the percentage that the weighted average number of Sogou shares held by Sohu.com Inc. represented of the weighted average number of Sogou Pre-IPO Preferred Shares and Sogou Pre-IPO Ordinary Shares outstanding, 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 was 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.

After Sogou's IPO

After Sogou's IPO, 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 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 Sogou, 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, 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 months ended March 31, 2018, all of the Sogou share options had a dilutive effect, and therefore were included in the calculation of Sohu.com Inc.'s diluted net income /(loss) per share. For the three months ended March 31, 2017, all of the Sogou share options had an anti-dilutive effect, and therefore were included in the calculation of Sohu.com Inc.'s diluted net income /(loss) per share. This impact is presented as "incremental dilution from Sogou" in the table below.

Changyou's net income /(loss) attributable to Sohu.com Inc.

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 months ended March 31, 2018, all of these Changyou restricted share units and share options had an anti-dilutive effect, and therefore were excluded in the calculation of Sohu.com Inc.'s diluted net income /(loss) per share. For the three months ended March 31, 2017, all of these Changyou restricted share units and share options had a dilutive effect, and therefore were included in the calculation of Sohu.com Inc.'s diluted net income /(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 loss per share (in thousands, except per share data).

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2018
Numerator:		
Net loss attributable to Sohu.com Inc., basic	$(68,248)	$(92,818)
Effect of dilutive securities:		
Incremental dilution from Sogou	0	(107)
Incremental dilution from Changyou	(416)	0
Net loss attributable to Sohu.com Inc., diluted	$(68,664)	$(92,925)
Denominator:		
Weighted average basic common shares outstanding	38,811	38,904
Effect of dilutive securities:		
Share options and restricted share units	0	0
Weighted average diluted common shares outstanding	38,811	38,904
Basic net loss per share attributable to Sohu.com Inc.	$ (1.76)	$ (2.39)
Diluted net loss per share attributable to Sohu.com Inc.	$ (1.77)	$ (2.39)

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14. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

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. On January 1, 2018, the Sohu Group adopted ASC 606, applying the modified retrospective method to contracts that were not completed as of January 1, 2018. Adoption did not have a material impact on retained earnings as of January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Group's historic accounting under ASC 605. Additional disclosures have been made. Please see the Notes to Condensed Consolidated Financial Statements for details.

ASU 2016-01 ("ASU 2016-01"), Recognition and Measurement of Financial Assets and Financial Liabilities, amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The main provisions require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value through earnings, unless they qualify for a measurement alternative. The new guidance will require modified retrospective application to all outstanding instruments beginning January 1, 2018, with a cumulative effect adjustment recorded to opening retained earnings as of the beginning of the first period in which the guidance becomes effective. However, changes to the accounting for equity securities without a readily determinable fair value will be applied prospectively. Additional disclosures have been made. Please see the Notes to Condensed Consolidated Financial Statements for details.

Statements of Cash Flows (Topic 230): Restricted Cash. In November 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-18, *Statements of Cash Flows (Topic 230): Restricted Cash*. The guidance requires that a statement of cash flows explain the changes during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The standard should be applied to each period presented using a retrospective transition method. The adoption of this standard does not have a material impact on the Sohu Group's consolidated financial statements, but resulted in restricted cash being included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows.

Other accounting standards adopted beginning January 1, 2018 do not have a significant impact on the Sohu Group's condensed consolidated financial statements.

15. IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

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, generally on a 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 publicly-traded 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.

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.

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04, *"Simplifying the Test for Goodwill Impairment."* The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Sohu Group is currently evaluating the impact of adopting this standard on its consolidated financial statements.

16. SUBSEQUENT EVENTS

On April 5, 2018, Changyou announced that its board of directors has declared a special cash dividend of $4.70 per Class A ordinary or Class B ordinary share, or $9.40 per American depositary share ("ADS"), each of which represents two Class A ordinary shares; and that the aggregate amount of the special cash dividend will be approximately $500 million. The amount of the dividend payable to Sohu is expected to be approximately $340 million. Sohu does not expect to pay any of such dividend to its stockholders, as the proceeds will be used to support Sohu's operations. The non-controlling interests on the consolidated balance sheet will be reduced by the declared dividend attributable to non-controlling shareholders of Changyou. The special cash dividend was paid by Changyou on April 26, 2018.

On April 11, 2018, Sohu entered into a credit facility agreement with China Merchants Bank Co., Ltd. ("CMB"), pursuant to which Sohu is entitled to borrow up to an aggregate of RMB700 million (or approximately $111.3 million) (the "CMB Loan"). Also on April 11, 2018, Sohu made an initial drawdown of RMB400 million (or approximately $63.6 million) (the "First Drawdown") under the CMB Loan. Interest will accrue on the outstanding principal balance of the First Drawdown at a rate of 6% per year and all outstanding principal of the First Drawdown will be due on April 10, 2019. The proceeds of the First Drawdown were used by Sohu to repay in full, on April 13, 2018, the outstanding balance under credit agreements between Sohu and Ping An Bank. On April 28, 2018, Ping An Bank released an existing first lien that Ping An Bank holds on a building of Sohu in Beijing, China, and CMB was granted a first lien on the building to secure the CMB Loan.

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"), 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"), 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 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., Tianjin Jinhu Culture Development Co., Ltd. ("Tianjin Jinhu"), Guangzhou Qianjun Network Technology Co., Ltd. ("Guangzhou Qianjun"), Beijing Modu Legendary Culture Media Co., Ltd., Chongqing Qogir Enterprise Management Consulting 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., our independently-listed subsidiary Sogou Inc. ("Sogou") as well as the following direct and indirect subsidiaries and VIEs of 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 ("Sogou Technology HK"), Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology"), Beijing Sogou Network Technology Co., Ltd ("Sogou Network"), Beijing Sogou Information Service Co., Ltd. ("Sogou Information"), Shenzhen Shi Ji Guang Su Information Technology Co., Ltd., Chengdu Easypay Technology Co., Ltd., Beijing Shi Ji Si Su Technology Co., Ltd., Sogou (Shantou) Internet Small Loan Co., Ltd., Tianjin Sogou Network Technology Co., Ltd, and our independently-listed majority-owned subsidiary Changyou.com Limited ("Changyou") 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 Korea Limited, Changyou.com India Private Limited, 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, PT. CHANGYOU TECHNOLOGY INDONESIA, Changyou.com Technology Brazil Desenvolvimento De Programas LTDA, Greative Entertainment Limited (formerly known as Greative Digital Limited), Glory Loop Limited ("Glory Loop"), TMobi Limited (formerly known as Muse Entertainment Limited), Mobo Information Technology Pte. Ltd., Changyou Mobo Glint Limited, Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame"), Beijing Changyou Skyline Property Management Co. Ltd, Beijing Changyou Chuangxiang Software 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.), Shenzhen Brilliant Imagination Technologies Co., Ltd. ("Brilliant Imagination"), Wuhan Xingyu Technology Co., Ltd., Beijing Changyou Creative Technology Co., Ltd., BeiJing Changmica Culture Co., Ltd., HongKong New Xinlang Electron Group Limited, and Shanghai Changhu Software Technology Co.,Ltd., 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, 2017 filed with the Securities and Exchange Commission ("SEC") on February 28, 2018, 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 these condensed consolidated financial statements, 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 an innovator in search and a leader in China's internet industry. With a mission to make it easy to communicate and get information, Sogou has grown to become the second largest search engine by mobile queries and the fourth largest internet company by monthly active users ("MAU") in China, according to iResearch. 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 Legacy TLBB, 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 use 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.

Smartphones have reshaped the online media business in China, as in-stream feeds have become a mainstream format through which users have become accustomed to receiving personalized information. To ensure we remain as a premiere destination for our audience, we invested extensively in content and technology for Sohu Media Portal. We continually refined the design of our key product Sohu News APP, and introduced innovative features to meet users' appetites. We improved the algorithm used by the recommendation engine of Sohu News APP to enhance the user experience. We also improved our delivery of advertising for small and medium enterprise ("SME") customers in order to increase their number. As the user base of Sohu Media Portal gains momentum, we will gradually increase the ad load. We expect advertising revenues to rebound from the second quarter of 2018.

Online video services remained one of the most popular Internet applications, and continued to gain viewers from television stations. Due to intensified competition among major players, the price of content, especially the prices of premium TV programs, went up sharply in the past few years. This caused industry-wide financial losses. For Sohu Video, we have changed our content procurement strategy and stopped buying expensive new TV programs. We now concentrate on self-developed content and other short-form video program categories, which are much less expensive than TV content. Leveraging our exclusive original content, we also actively explore opportunities with subscription services that we believe will become an important revenue source in addition to traditional advertising revenues. As a result of these measures, the operating loss of Sohu Video in the first quarter of 2018 decreased by 45% year-on-year. We expect the loss will continue to narrow in the rest of 2018.

For our search and search-related business, Sogou is China' second-largest search engine by mobile queries. In March 2018, Sogou Search had an 18% market share in China based on mobile queries, as compared to 15% in March 2017, according to iResearch. Sogou continued to strengthen its competitive advantages in search from channel to content, leveraging the robust ecosystem it has built and shared with Tencent. Since October 2017, Tencent has been testing, on a trial basis and for purposes of assessment, the integration of Sogou Search into Weixin/WeChat. With this initiative, users of Weixin/WeChat can use Sogou Search as a general search function within Weixin/WeChat to access Internet information outside Weixin/WeChat. Sogou is working closely with Tencent on product testing and optimization and intend to discuss commercial arrangements upon the completion of the trial stage. In addition, Sogou continued to differentiate its search offerings across key verticals, especially in healthcare, law, and education. It will continue to invest in companies with valuable content, data, and technology, and look to build strategic partnerships through equity investments that help to solidify its competitive edge and drive the long-term growth of its search business. At the same time, Sogou focused on developing AI technology centered on natural language processing, and has made solid progress in voice, computer vision, translation and Q&A. Sogou has further leveraged these AI capabilities to enhance the search experience for users.

For Changyou's online game business, PC games revenue remained stable and mobile games revenue experienced a decrease during the three months ended March 31, 2018. Changyou intends to be unremitting to further enrich the content and gameplay, address the needs of core users, and extend the lifecycle of its games. While Changyou continues to focus on MMORPG development, it also aims to improve its R&D and product innovation capabilities in advanced casual and simulation games ("SLG games"). Changyou intends to keep improving game quality and gameplay innovation with the goal of ensuring that its new games follow changes in user needs and the market. For the three months ended March 31, 2018, the PC games and mobile games that Changyou operates had approximately 5.1 million total average monthly active accounts and approximately 1.6 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 advertising revenues; online games revenues; and other revenues. Online advertising and online games are our core businesses. For the three months ended March 31, 2018, total revenues generated by Sohu, Sogou and Changyou were approximately $455.0 million, including:

Sohu:

- $51.2 million in brand advertising revenues, of which $30.7 million was from Sohu Media Portal, $12.6 million was from Sohu Video, and $7.9 million was from Focus; and
- $18.5 million in other revenues, mainly attributable to revenues from paid subscription services, interactive broadcasting services, content provided through the platforms of the three main telecommunications operators in China, and sub-licensing of purchased video content to third parties.

Total revenues generated by Sohu were $69.7 million.

Sogou:

- $220.3 million in search and search-related advertising revenues; and
- $27.8 million in other revenues, attributable to Sogou's offering of Internet value-added services (or "IVAS"), primarily with respect to the operation of Web games and mobile games developed by third parties and the provision of online reading services, as well as Sogou's offering of other products and services, including smart hardware products.

Total revenues generated by Sogou were $248.1 million.

Changyou:

- $105.5 million in online game revenues;
- $5.1 million in brand advertising revenues, mainly attributable to Changyou's 17173.com Website; and
- $26.6 million in other revenues attributable to Changyou's cinema advertising business and IVAS business.

Total revenues generated by Changyou were $137.2 million.

For the three months ended March 31, 2018, our total brand advertising revenues were $56.3 million, total search and search-related advertising revenues were $220.3 million, total online game revenues were $105.5 million, and total other revenues were $72.9 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 the mobile phone application Sohu News APP, www.sohu.com for PCs 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 Sohu Business

Sohu also engages in the other business, which consists primarily of paid subscription services, interactive broadcasting services, content provided through the platforms of the three main telecommunications operators in China, and sub-licensing of purchased video content to third parties. 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 consists primarily of search and search-related advertising services offered by Sogou. Search and search-related advertising services enable advertisers' promotional links to be displayed on Sogou's search results pages and other Internet properties and third parties' Internet properties where the links are relevant to the subject and content of searches and such properties. Sogou's advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. Our search and search-related business benefits from Sogou's collaboration with 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 advertising revenues in our consolidated statements of comprehensive income.

Other Sogou Business

Sogou also offers IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties and the provision of online reading services, and offers other products and services, including smart hardware products. Revenues generated by Sogou from the other business are classified as other revenues in our consolidated statements of comprehensive income.

Initial Public Offering of Sogou

On November 13, 2017, Sogou completed its IPO on the NYSE, trading under the symbol "SOGO."

Sogou's IPO consisted of ADSs, with each ADS representing one Class A Ordinary Share. Sogou issued and sold in the IPO 50,643,856 Class A Ordinary Shares represented by 50,643,856 ADSs, including 5,643,856 Class A Ordinary Shares represented by 5,643,856 ADSs sold pursuant to the exercise of the underwriters' over-allotment option. Proceeds to Sogou from the IPO were approximately $622.1 million, after deducting underwriting discounts and commissions and offering expenses.

In the fourth quarter of 2017, we recognized a one-time credit to additional paid-in capital of $278.4 million in shareholders' equity in our consolidated balance sheets to reflect an increase in the value of our equity in Sogou that resulted from the completion of Sogou's IPO.

Sogou's Ordinary Shares are divided into Class A Ordinary Shares and Class B Ordinary Shares. Holders of Class A Ordinary Shares and holders of Class B Ordinary Shares have identical rights with the exception of voting and conversion rights. Each Class A Ordinary Share is entitled to one vote per share and is not convertible. Each Class B Ordinary Share is entitled to ten votes per share and is convertible into one Class A Ordinary Share at any time.

Voting Agreement between Sohu and Tencent

Pursuant to the Sogou Voting Agreement, which took effect upon the completion of Sogou's IPO, and Sogou's amended and restated memorandum and articles of association, Sohu has the right to appoint a majority of Sogou's Board of Directors, and Sohu continues to consolidate Sogou in Sohu's financial statements and provide for noncontrolling interests reflecting ordinary shares in Sogou held by shareholders other than Sohu.

Sogou's Share Structure

As of March 31, 2018, Sogou had a combined total of 397,183,397 Class A Ordinary Shares and Class B Ordinary Shares issued and outstanding, consisting of:

(i) Sohu: 127,200,000 Class B Ordinary Shares held by Sohu for its own account, and 3,717,250 Class A Ordinary Shares held by Sohu for the purpose of issuance upon the exercise of outstanding share-based awards and future share-based awards;

(ii) Tencent: 151,557,875 Class B Ordinary Shares;

(iii) Photon: 32,000,000 Class A Ordinary Shares; and

(iv) Shareholders other than Sohu, Tencent, and Photon: 82,708,272 Class A Ordinary Shares.

The totals of Sogou outstanding shares listed above include 10,327,500 Class A Ordinary Shares that are outstanding for legal purposes, but have been determined to be Sogou treasury stock for accounting purposes.

Changyou's Business

Changyou's business lines consist of the online game business; the platform channel business, which consists primarily of online advertising and IVAS; and the cinema advertising business.

Online Game Business

Changyou's online game business offers PC games and mobile games to game players. 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.

PC Games

PC games 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. Changyou's dominant game is TLBB, a PC based client-end game. For the three months ended March 31, 2018, revenues from TLBB were $50.8 million, accounting for approximately 48% of Changyou's online game revenues, approximately 37% of Changyou's total revenues and approximately 11% of the Sohu Group's total revenues.

Mobile Games

Mobile games are played on mobile devices and require an Internet connection. In the second quarter of 2017, Changyou launched a new mobile game, Legacy TLBB, which is operated by Tencent under license from Changyou. For the three months ended March 31, 2018, revenues from Legacy TLBB were $28.2 million, accounting for approximately 27% of Changyou's online game revenues, approximately 21% of Changyou's total revenues, and approximately 6% of the Sohu Group's total revenues.

Web Games

Prior to the sale of Shenzhen 7Road in August 2015, Changyou's online games also included Web games, which are online games that are played through a Web browser with no local game software installation requirements. Following the sale of Shenzhen 7Road, Web games became an insignificant part of Changyou's online game business.

Platform Channel Business

Changyou's platform channel business consists primarily of the operation of the 17173.com Website and RaidCall. Prior to the sale of MoboTap in March 2018, Changyou's platform channel business also included MoboTap.

17173.com Website

The 17173.com Website is one of the leading information portals in China, and provides news, electronic forums, online videos and other information services regarding online games to game players. All revenues generated by the 17173.com Website are classified as brand advertising revenues.

RaidCall

RaidCall provides online music and entertainment services, primarily in Taiwan. All revenues generated by RaidCall from IVAS are classified as other revenues in our consolidated statements of comprehensive income.

MoboTap

MoboTap provides (a) software applications for PCs and mobile devices through the Dolphin Browser, which is a gateway to a host of user activities on mobile devices with the majority of its users based in overseas markets, and (b) domestic online card and board games. IVAS revenues generated by the Dolphin Browser are classified as other revenues and online card and board games revenues generated by MoboTap are classified as online game revenues in our consolidated statements of comprehensive income. Changyou disposed of MoboTap for $3.0 million in the first quarter of 2018.

Cinema Advertising Business

Changyou also operates a cinema advertising business, which consists primarily of the acquisition from operators of movie theaters, and the sale to advertisers, of pre-film advertising slots, which are advertisements 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 our consolidated statements of comprehensive income.

Changyou's Share Structure

As of March 31, 2018, Changyou had a combined total of 105,836,420 Class A and Class B Ordinary Shares issued and outstanding, consisting of:

(i) Sohu.com Inc.: 1,500,000 Class A Ordinary Shares and 70,250,000 Class B Ordinary Shares; and

(ii) Public shareholders: 34,086,420 Class A Ordinary Shares.

As of March 31, 2018, we held approximately 68% of the combined total of Changyou's outstanding ordinary shares, and controlled approximately 95% of the total voting power in Changyou. As Changyou's controlling shareholder, we consolidate Changyou in our financial statements and provide for noncontrolling interests reflecting ordinary shares in Changyou held by shareholders other than us.

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 most 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 and Recognition of Noncontrolling Interest

Our consolidated financial statements include the accounts of Sohu.com Inc. and its subsidiaries and consolidated VIEs. All intra-Group 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

Sogou completed its IPO on the NYSE in November 2017. Prior to the completion of Sogou's IPO, Sohu.com Inc. controlled the election of a majority of the Board of Directors of Sogou pursuant to a shareholders' agreement that expired upon the completion of the IPO. Following the completion of Sogou's IPO, pursuant to the Sogou Voting Agreement and Sogou's amended and restated memorandum and articles of association, Sohu.com Inc. still has the right to appoint a majority of Sogou's Board of Directors.

As Sogou's controlling shareholder, we consolidate Sogou in our consolidated financial statements, and recognize noncontrolling interest reflecting economic interests 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.

Noncontrolling Interest Recognition before Sogou's IPO

Based on the principles of allocation of Sogou's profit and loss set forth below, Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity/(deficit) and adjustments for share-based compensation expense in relation to those share-based awards that were unvested and vested but not yet settled and the Sogou noncontrolling shareholders' investments in Sogou Pre-IPO Series A Preferred Shares, Sogou Pre-IPO Series B Preferred Shares, Sogou Pre-IPO Class A Ordinary Shares, and Sogou Pre-IPO Class B Ordinary Shares, were accounted for as a noncontrolling interest classified as permanent equity in our consolidated balance sheets, as we had the power to reject a redemption requested by the noncontrolling shareholders. These treatments were based on the terms governing investment, and on the terms of the classes of Sogou shares held, by the noncontrolling shareholders in Sogou before Sogou's IPO.

Principles of Allocation of Sogou's Profit and Loss - By virtue of the terms of the Sogou Pre-IPO Preferred Shares, Pre-IPO Class A Ordinary Shares, and Pre-IPO Class B Ordinary Shares, Sogou's losses were allocated in the following order before Sogou's IPO:

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

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

(iii) additional net losses were allocated to the holder of the Sogou Pre-IPO Series B Preferred Shares until its basis in Sogou decreased to zero; and

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

Net income from Sogou was allocated in the following order before Sogou's IPO:

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

(ii) additional net income was allocated to the holder of the Sogou Pre-IPO Series B Preferred Shares to bring its basis back;

(iii) additional net income was allocated to holders of the Sogou Pre-IPO Series A Preferred Shares to bring their basis back;

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

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

Noncontrolling Interest Recognition after Sogou's IPO

Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, based on their share of the economic interest in Sogou, along with changes in shareholders' equity and adjustment for share-based compensation expense in relation to share-based awards that are unvested and vested but not yet settled and adjustment for changes in our ownership percentage in Sogou, are recorded as noncontrolling interest in our consolidated balance sheets.

Noncontrolling Interest for Changyou

Changyou is a public company listed on the NASDAQ Global Select Market. As of March 31, 2018, we held approximately 68% of the combined total of Changyou's outstanding ordinary shares, and controlled approximately 95% of the total voting power in Changyou.

As Changyou's controlling shareholder, we consolidate Changyou in our consolidated financial statements, and recognize noncontrolling interest reflecting the economic interest in Changyou held by shareholders other than us (the "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

Adoption of ASC 606

On January 1, 2018, we adopted ASC 606, applying the modified retrospective method to contracts that were not completed as of January 1, 2018. Adoption did not have a material impact on accumulated deficit as of January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605.

Under ASC 605, advertising-for-advertising barter transactions for which the fair value of the advertising services was not determinable was recorded at the carrying amount of the advertising surrendered since we did not settle such barter transactions with the counterparties in cash. As ASC 605 has been superseded by ASC 606 on this subject, advertising-for-advertising barter transactions should be recorded at the fair value of the advertising received by reference to the fair value of advertising services provided to other customers. The impact for the first quarter of 2018 was an increase of approximately $6.7 million in revenues, with a corresponding increase in cost of revenues and sales and marketing expenses, most of which were generated from Sogou for services provided to and received from Tencent. To a lesser extent, there is a potential impact on our accounting for exchanges of brand advertising placements with other platforms by Sohu. Revenues are recognized in the same amount with costs and expenses. Therefore, there was no net profit and loss impact to us for the first quarter of 2018.

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The following table illustrates the effect of the adoption of ASC 606 by presenting a comparison of selected line items from the Group's condensed consolidated statement of comprehensive income for the three months ended March 31, 2018, as actually reported and as they would have been reported under ASC 605, without the adoption of ASC 606 (in thousands, except per share data):

	As reported	Without adoption of ASC 606	Effect of change Higher/(Lower)
Revenue-Online advertising-Brand advertising	$ 56,254	55,913	341
Revenue-Online advertising-Search and search related advertising	220,301	213,987	6,314
Cost of revenue- Online advertising-Search and search related advertising	144,696	138,955	5,741
Gross profit	194,162	193,248	914
Operating expenses- Sales and marketing	90,273	89,359	914
Operating loss	(31,490)	(31,490)	0
Income tax expenses	63,379	63,379	0
Net loss	(87,201)	(87,201)	0
Basic net loss per share attributable to Sohu.com Inc.	(2.39)	(2.39)	0
Diluted net loss per share attributable to Sohu.com Inc.	(2.39)	(2.39)	0

The adoption of ASC 606 did not change our condensed consolidated balance sheet, condensed consolidated statement of cash flows, or condensed consolidated statement of changes in equity for the three months ended March 31, 2018.

Revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The recognition of revenues involves certain management judgments, including estimated lives of virtual items purchased by game players, the estimation of the fair value of an advertising-for-advertising barter transaction, allocation of upfront license fees for licensed-out games between license and post-sale services, and the volume sales rebates. We do not believe that significant management judgements are involved in revenue recognition, but the amount and timing of our revenues could be different for any period if management made different judgments or utilized different estimates.

The following table presents our revenues disaggregated by products and services (unaudited):

	Three Months Ended March 31, 2018 (in thousands)				Three Months Ended March 31, 2017 (in thousands)			
	Sohu	Sogou	Changyou	Total	Sohu	Sogou	Changyou	Total
Brand advertising:								
Sohu Media Portal	$30,674	0	0	30,674	$36,844	0	0	36,844
Sohu Video	12,635	0	0	12,635	21,696	0	0	21,696
Focus	7,868	0	0	7,868	17,018	0	0	17,018
17173.com Website	0	0	5,078	5,078	0	0	5,854	5,854
Search and search related advertising	0	220,301	0	220,301	0	142,035	0	142,035
Online games:								
PC games	0	0	59,425	59,425	0	0	64,881	64,881
Mobile games	0	0	45,735	45,735	0	0	19,838	19,838
Other games	0	0	301	301	0	0	606	606
Others:								
Paid subscription services	9,257	0	0	9,257	6,316	0	0	6,316
Cinema advertising business	0	0	24,870	24,870	0	0	24,600	24,600
Others	9,305	27,749	1,797	38,851	10,090	20,234	4,091	34,415
Total	$69,739	248,050	137,206	454,995	$91,964	162,269	119,870	374,103

As noted above, in accordance with the modified retrospective method upon adoption of ASC 606, prior period amounts have not been adjusted.

Online Advertising Revenues

Online advertising revenues include revenues from brand advertising services as well as search and search-related advertising services. Certain customers may receive sales rebates, which are accounted for as variable consideration. We estimate annual expected revenue volume of each individual agent with reference to their historical results. The sales rebate will reduce revenues recognized. We recognize revenue for the amount of fees we receive from our advertisers, after deducting sales rebates and net of value-added tax (“VAT”) and related surcharges. We believe that there will not be significant changes to our estimates of variable consideration.

Brand Advertising Revenues

Revenue Recognition of Multiple Performance Obligations

Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenues to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices of each distinct performance obligation based on the prices charged to customers when sold on a standalone basis. Where standalone selling price is not directly observable, we generally estimate selling prices based on when they are sold to customers of a similar nature and geography. Most of such contracts have all performance obligations completed within the same quarter.

Pricing Model

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 three main types of pricing models, consisting of the Fixed Price model, the Cost Per Impression (“CPM”) model, and the Cost Per click (“CPC”) model.

(i) Fixed Price model

Under the Fixed Price model, a contract is signed to establish a fixed price for the advertising services to be provided. Given the advertisers benefit from the displayed advertising evenly, we recognize revenue on a straight-line basis over the period of display, provided all revenue recognition criteria have been met.

(ii) CPM model

Under the CPM model, the unit price for each qualifying display is fixed and 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. Given that the fees are priced consistently throughout the contract and the unit prices are consistent with the our pricing practices with similar customers, we recognize revenue based on the fixed unit prices and the number of qualifying displays upon occurrence of display, provided all revenue recognition criteria have been met.

(iii) CPC model

Under the CPC model, there is no fixed price for advertising services stated in the contract with the advertiser and the unit price for each click is auction-based. We charge advertisers on a per-click basis when the users click on the advertisements. Given that the fees are priced consistently throughout the contract and the unit prices are consistent with our pricing practices with similar customers, we recognize revenue based on qualifying clicks and the unit price upon the occurrence of a click, provided all revenue recognition criteria have been met.

Search and Search-related Advertising Revenues

Search and search-related services consist primarily of search and search-related advertising services offered by Sogou.

Pay-for-click Services

Pay for click services enable advertisers’ promotional links to be displayed on Sogou search result pages and other Internet properties and third parties’ Internet properties where the links are relevant to the subject and content of searches and such properties. For pay for click services, Sogou introduces Internet users to its advertisers through auction-based pay-for-click systems and charges 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.

Other Online Advertising Services

Other online advertising services mainly consist of displaying advertisers' promotional links on Sogou's Internet properties. Revenue for time-based advertising is normally recognized on a straight-line basis over the advertising period, provided Sogou's obligations under the contract and all revenue recognition criteria have been met. Revenue for performance-based advertising services is recognized when Sogou's performance obligations under the contract have been satisfied.

Sogou's online advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. Sogou is the primary obligor to the advertisers and payments made to operators of third-party Internet properties are included in traffic acquisition costs, which are included in cost of search and search-related advertising revenues.

Online Game Revenues

Changyou's online game revenues are generated primarily from its self-operated and licensed-out PC games and mobile 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.

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 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 as the virtual items are consumed or over the estimated lives of the virtual items, which are estimated by considering the average period that paying players typically play Changyou's games and other player behavior patterns derived from operating data. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of the recording of the revenues could be impacted.

PC Games

Proceeds from Changyou's self-operated 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.

Changyou's 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 pursuant to revenue-sharing agreements, and keeps the balance. Such revenue-sharing amounts paid to third-party developers are recorded in Changyou's cost of revenues.

Mobile Games

Self-operated Mobile Games

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

Changyou's 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 pursuant to revenue-sharing agreements, and keeps the balance. Such revenue-sharing amounts paid to mobile application stores and third-party developers are recorded in Changyou's cost of revenues.

Licensed Out Mobile Games

Changyou also authorizes third parties to operate its mobile games. Licensed out games mainly include mobile games developed in house Legacy TLBB and mobile games jointly developed with third-party developers. For mobile games developed in house, the license arrangements also include post-sale services. 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. Changyou determined that the game license and the post-sale services are distinct performance obligations and that the up-front license fee should be allocated between the license and the post-sale services based on the relative standalone selling price, which is determined by using expected cost plus margin. The amounts allocated to the license should be recognized upon the commencement of the license period, given that the license is considered to be a functional license, and the amount allocated to post-sale services should be recognized over the service period on a straight-line basis as the post-sale services are regarded to be performed evenly. The monthly revenue-based royalty payments are recognized when the sales occur, 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 pursuant to revenue-sharing agreements, and keeps the balance. Such revenue-sharing amounts paid to third-party developers are included in Changyou's cost of revenues or product development expenses.

Other Revenues

Sohu

Other revenues attributable to Sohu consist primarily of revenues from paid subscription services, interactive broadcasting services, content provided through the platforms of the three main telecommunications operators in China, and sub-licensing of purchased video content to third parties.

Sogou

Other revenues attributable to Sogou are IVAS revenues, which are mainly from the operation of Web games and mobile games developed by third parties and the provision of online reading services, and revenues from other products and services, including smart hardware products.

Changyou

Other revenues attributable to Changyou are primarily from its cinema advertising business and from IVAS.

In its cinema advertising business, Changyou provides clients advertising placements in slots that are shown in theaters before the screening of movies. The rights to place advertisements in such advertising slots are granted to Changyou, which takes inventory risk under the contracts Changyou signs with different theaters. When all the recognition criteria are met, revenues from cinema advertising are recognized based on a percentage of the advertising slots actually delivered. As Changyou is considered to be the principal in the arrangements with the theaters, the fees paid to the theaters are recognized as cost of revenues.

Changyou provides IVAS primarily through software applications for PCs and mobile devices offered by RaidCall. Revenues from IVAS are recognized during the period the services are rendered or items are consumed under the gross method, as Changyou is the principal obligor for provision of the services.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenue recognized prior to invoicing, when we have satisfied our performance obligations and have the unconditional right to payment. The allowance for doubtful accounts and authorized credits is estimated based upon our assessment of various factors, including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect our customers' ability to pay. Contract assets as of March 31, 2018 were not material. The allowance for doubtful accounts and authorized credits was $5.5 million and $5.7 million, respectively, as of March 31, 2018 and December 31, 2017.

Receipts in advance and deferred revenue related to unsatisfied performance obligations at the end of the period and consist of fees received from the game players with online gaming business and advertisers with searching and searching related advertising business. Due to the generally short-term duration of the contracts, the majority of the performance obligations are satisfied in the following reporting period. The amount of revenue recognized that was included in the receipts in advance and deferred revenue balance at the beginning of the period was $104.3 million for the three month periods ended March 31, 2018.

There is no significant change in contract liability balance during the first quarter of 2018.

Revenue recognized in the current period from performance obligations related to prior periods was not material.

Practical Expedients

We have used the following practical expedients as allowed under ASC 606:

(i) The transaction price allocated to the performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed as substantially all of the our contracts have a duration of one year or less.

(ii) Payment terms and conditions vary by contract type, although terms generally include a requirement of prepayment or payment within one year or less. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts generally do not include a significant financing component.

(iii) We applied the portfolio approach in determining the commencement date of consumption and the estimated lives of virtual items for the recongnition of games revenue given that the effect of applying a portfolio approach to a group game players' behaviors would not differ materially from considering each one of them individually.

(iv) We generally expense sales commissions when incurred, because the amortization period would be one year or less. These costs are recorded within sales and marketing expenses.

Product Development Expenses

Product development expenses mainly consist of salary and benefits expenses, technical service fees, content and license expenses, depreciation and amortization expenses, 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 us or a desire to subscribe for our products and services. Advertising and promotional 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.

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 Sohu common stock contractually granted under the Sohu 2010 Stock Incentive Plan 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, a binomial valuation model was applied. The determination of the fair value is affected by the fair value of the ordinary shares as well as assumptions regarding a number of complex and subjective variables, including risk-free interest rates, exercise multiples, expected forfeiture rates, expected share price volatility rates, and expected dividends. Before the completion of Sogou's IPO, the fair values of the ordinary shares were assessed using the income approach/discounted cash flow method or based on the mid-point of the estimated IPO price range, in each case with a discount for lack of marketability, given that the shares underlying the awards were not publicly traded at the time of grant. After the completion of Sogou's IPO, the fair values of the ordinary shares were determined based on the market price of Sogou' ADSs. Certain persons who became Sogou employees when Tencent's Soso search and 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 and search-related businesses to Sogou, Sogou applied the guidance in ASC 505-50 to measure the related compensation expense, as the expense is deemed to have been incurred by Tencent as an investor on Sogou's behalf, based on the then-current fair value at each reporting date. 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 after Changyou's IPO, the public market price of the underlying shares on the grant dates was applied.

Options for the purchase of Changyou Class A ordinary shares contractually granted under the Changyou 2014 Share Incentive Plan 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 over the estimated period during which the service period requirement and performance target will be met, which is usually within one year, or, after the performance target of Sogou's completion of an IPO was met upon the completion of Sogou's IPO on November 13, 2017, on an accelerated basis over the requisite service period, or, for options with only service period requirement, on an accelerated basis over the requisite service period. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and 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 the service has been provided. 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.

For Sogou Pre-IPO Class A Ordinary Shares repurchased from our former President and Chief Financial Officer in the first quarter of 2017, share-based compensation expense was recognized by us in the consolidated statements of comprehensive income in an amount equal to the excess of the repurchase price over the fair value of the Sogou Pre-IPO Class A Ordinary Shares at the repurchase date.

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 March 31, 2018, 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 March 31, 2018, 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 was not determinable and could not 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 are related 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 CIT law.

Applicable Income Tax Rate

Principal Entities Qualified as HNTEs

The CIT Law generally applies an income tax rate of 25% to all enterprises but grants preferential tax treatment to 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 a 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 HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% CIT rate.

As of March 31, 2018, the following principal entities were qualified as HNTEs and were entitled to an income tax rate of 15%.

For Sohu's Business

- Sohu New Momentum. Sohu New Momentum qualified as an HNTE for the years 2016 through 2018, and will need to re-apply for HNTE qualification in 2019.
- Sohu Internet. Sohu Internet qualified as an HNTE for the years 2015 through 2017, and will need to re-apply for HNTE qualification in 2018.
- Sohu Media and Guangzhou Qianjun. Sohu Media and Guangzhou Qianjun re-applied for HNTE qualification and received approval in November 2017 and December 2017, respectively. New Media and Guangzhou Qianjun are entitled to continue to enjoy the beneficial tax rate as HNTEs for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.

For Sogou's Business

- Sogou Information. Sogou Information qualified as an HNTE for the years 2015 through 2017, and will need to re-apply for HNTE qualification in 2018.
- Sogou Technology. Sogou Technology re-applied for HNTE qualification and received approval in December 2017. Sogou Technology is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.
- Sogou Network. Sogou Network qualified as an HNTE for the years 2016 through 2018, and will need to re-apply for HNTE qualification in 2019.

For Changyou's Business

- Gamease and AmazGame. Gamease and AmazGame re-applied for HNTE qualification and received approval in October 2017 and December 2017, respectively. Gamease and AmazGame are entitled to continue to enjoy the beneficial tax rate as HNTEs for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.
- Gamespace. Gamespace qualified as HNTE for the years 2016 through 2018, and will need to re-apply for HNTE qualification in 2019.

Principal Entities Qualified as Software Enterprises and KNSEs

The CIT Law and its implementing regulations provide that a "Software Enterprise" is entitled to 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" (a "KNSE") is entitled to a further reduced preferential income tax rate of 10%. Enterprises wishing to enjoy the status of a Software Enterprise or a KNSE must perform a self-assessment each year to ensure they meet the criteria for qualification and file required supporting documents with the tax authorities before using the preferential CIT rates. These enterprises will be subject to the tax authorities' assessment each year 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 the relevant authorities determine that it fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise's Software Enterprise/KNSE status.

For Sohu's Business

- Sohu New Momentum. In 2017, Sohu New Momentum completed a self-assessment, filed required supporting documents, and was qualified as a Software Enterprise, which entitled it to the first year of an income tax rate reduction from 25% to 12.5% for 2016. Sohu New Momentum will follow the same process in 2018 to entitle it to the second year of an income tax rate reduction from 25% to 12.5% for 2017.

For Sogou's Business

- Sogou Technology. In 2017, Sogou Technology completed a self-assessment and filed required supporting documents for KNSE status for 2016. In 2017, Sogou Technology was qualified as a KNSE after the relevant government authorities' assessment and was entitled to a preferential income tax rate of 10% for 2016. Sogou Technology will follow the same process in 2018 for KNSE status for 2017.

For Changyou's Business

- AmazGame. In 2017, AmazGame completed a self-assessment and filed required supporting documents for KNSE status for 2016. Also in 2017, AmazGame was qualified as a KNSE after the relevant government authorities' assessment and was entitled to a preferential income tax rate of 10% for 2016. AmazGame will follow the same process in 2018 for KNSE status for 2017.

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 Business Tax to the imposition of VAT was expanded to all industries in China, and all of our revenues have been subject to VAT since that date. To record VAT payable, we 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 21% for taxable years beginning after December 31, 2017 and of up to 35% for prior tax years. U.S. federal tax legislation signed into law on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act (the "U.S. Tax Reform"), significantly modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time transition tax on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings. Taxpayers may elect to pay the one-time transition tax over eight years, or in a single lump-sum payment.

Certain activities conducted in the PRC may result in U.S. corporate income taxes being 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 21%. Subpart F income also includes certain income from intra-Group transactions between Sohu.com Inc.'s non-U.S. subsidiaries and VIEs and Changyou's non-U.S. subsidiaries and VIEs or Sogou'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.

To the extent that portions of Sohu.com Inc.'s U.S. taxable income, such as Subpart F income or GILTI, 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. If dividends that Sohu.com Inc. receives from its subsidiaries are determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. will generally not be required to pay U.S. corporate income tax on those dividends. Any liabilities for U.S. corporate income tax will be accrued in our consolidated statements of comprehensive income and estimated tax payments will be made when required by U.S. law.

One-Time Transition Tax Related to U.S. Tax Reform

In the fourth quarter of 2017, the Group recognized a one-time transition tax of $218.5 million that represented management's estimate of the amount of U.S. corporate income tax based on the deemed repatriation to the United States of Sohu's share of previously deferred earnings of certain non-U.S. subsidiaries of Sohu mandated by the U.S. Tax Reform, offset by a reduction of $3.7 million in liability for deferred U.S. income tax as a result of the U.S. Tax Reform. Sohu.com Inc. may make an election to pay the one-time transition tax over eight years commencing in April 2019, or pay in a single lump sum. The actual impact of the U.S. Tax Reform on Sohu.com Inc. may differ from management's estimates, and management may update its judgments based on future regulations or guidance issued by the U.S. Department of the Treasury. There is no development for the impact from U.S. Tax Reform on Sohu.com Inc. during the first quarter of 2018, so the balance of one-time transition tax remains unchanged as of March 31, 2018.

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 calculated as follows:

Sogou's net income /(loss) attributable to Sohu.com Inc.

Before Sogou's IPO

Before Sogou's IPO, Sogou's net income /(loss) attributable to Sohu.com Inc. was determined using the percentage that the weighted average number of Sogou shares held by Sohu.com Inc. represented of the weighted average number of the Sogou Pre-IPO Preferred Shares and Pre-IPO 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 was 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.

After Sogou's IPO

After Sogou's IPO, 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 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 Sogou, 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, 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.

Changyou's net income /(loss) attributable to Sohu.com Inc.

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 consist primarily of cash equivalents, short-term investments, accounts receivable, prepaid and other current assets, long-term investments, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, long-term bank loans 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.

Foreign exchange forward contracts

Foreign exchange forward contracts are initially recognized on the date a foreign exchange forward contract is entered into and are subsequently measured at fair value. Changyou entered into such foreign exchange forward contracts in compliance with its risk management policy for the purpose of eliminating the negative impact on earnings and equity resulting from fluctuations in the exchange rate between the U.S. dollar and the RMB. The instruments are marked-to-market at each period-end with the associated changes in fair value recognized in the line item “Other income /(loss), net” in the consolidated statements of comprehensive income and “Other short-term liabilities” or “Prepaid and other current assets” in the consolidated balance sheets. The net cash inflow and outflow related to the settlement of the forward contracts are recorded in the line item “Other investing activities” under “Cash flows from investing activities” in the consolidated statements of cash flows.

Equity Investments

Investments in entities are recorded as equity investments under long-term investments. For entities over which we can exercise significant influence but do not own a majority equity interest or control, the equity method is applied, and 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. For those equity investments accounted for other than under the equity method or those that result in consolidation, the fair value method is applied. However, for equity investments that do not have readily determinable fair values, we choose to account for them at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Long-Lived Assets

Long-lived assets include fixed assets and intangible assets.

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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
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, purchased 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	6 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

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.

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 net gain or loss from such exchange transactions.

Impairment of Video Content

Purchased video content is stated at the lower of cost less accumulated amortization, or net realizable value ("NRV").

In accordance with ASC 920-350-35, if management's expectations of the programming usefulness of a program, series, package, or program segment are revised downward, it may be necessary to write down unamortized cost to estimated NRV. A write-down from unamortized cost to a lower estimated NRV establishes a new cost basis. Accordingly, we measure the video content's impairment loss by comparing the content's carrying value to its NRV. An impairment loss will be recorded if the carrying value of video content is higher than its NRV. The impairment to be recognized is measured by the amount by which the carrying value of video content exceeds its NRV.

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. After performing the assessment, if the carrying amounts of the reporting units are higher than their fair value, we perform the second step of the two-step quantitative goodwill impairment test.

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. We estimate fair value using the income approach or the market approach. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates, control premium, comparable companies' multipliers, 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.

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 intra-Group 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):

	Three Months Ended March 31,					
	2017		2018		2018 vs 2017	
	Amount	Percentage of the total revenue	Amount	Percentage of the total revenue	Amount	Incremental ratio
Revenues						
Online advertising:						
Brand advertising	$ 81,412	22%	56,254	12%	(25,158)	(31)%
Search and search-related advertising	142,035	38%	220,301	48%	78,266	55%
Subtotal of online advertising revenues	223,447	60%	276,555	60%	53,108	24%
Online game	85,325	23%	105,461	23%	20,136	24%
Others	65,331	17%	72,979	17%	7,648	12%
Total revenues	$374,103	100%	454,995	100%	80,892	22%

Online Advertising Revenues

Online advertising revenues were $276.6 million and $223.4 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year increase of 24%.

Brand Advertising Revenues Generated by Sohu and Changyou

Brand advertising revenues were $56.3 million and $81.4 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year decrease of 31%. The year-on-year reduction in brand advertising revenues was mainly from reductions in the revenues of Sohu Video and Focus.

Sohu

- Sohu Media Portal

Revenues from Sohu Media Portal were $30.7 million and $36.8 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year decrease of 17%. The average amount spent per advertiser was approximately $20,000 and $22,000, respectively, for the three months ended March 31, 2018 and 2017. The number of advertisers for Sohu Media Portal was 1,511 and 1,694, respectively, for the three months ended March 31, 2018 and 2017.

• Sohu Video

Revenues from Sohu Video were $12.6 million and $21.7 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year decrease of 42%. The changes were mainly attributable to reductions in the number of advertisers. The number of advertisers on Sohu Video sites was 103 and 171 respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year decrease of 40%. The average amount spent per advertiser was approximately $122,000 and $127,000, respectively, for the three months ended March 31, 2018 and 2017.

• Focus

Revenues from Focus were $7.9 million and $17.0 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year decrease of 54%. Revenues from Focus were primarily generated through the Fixed Price model. For the Fixed Price model, revenues were $6.7 million and $11.2 million, respectively, for the three months ended March 31, 2018 and 2017, representing a decrease of 40%.

Changyou

• 17173.com Website

Revenues from the 17173.com Website were $5.1 million and $5.9 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year decrease of 14%. The decrease was primarily a result of fewer Web games being marketed on the 17173 Website. The number of advertisers for the 17173.com Website was 68 and 84, respectively, and the average amount spent per advertiser was approximately $75,000 and $70,000, respectively, for the three months ended March 31, 2018 and 2017.

Search and Search-related Advertising Revenues, Generated by Sogou

Revenues from search and search-related services were $220.3 million and $142.0 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year growth rate of 55%. The increase was mainly due to continued traffic growth and improved monetization in mobile search.

The increase in revenues from search and search-related services was mainly attributable to an increase in revenues from auction-based pay-for-click services. Revenues from pay-for-click services accounted for approximately 83% and 81%, respectively, of the total search and search-related advertising revenues for the three months ended March 31, 2018 and 2017.

The growth in revenues from auction-based pay-for-click services resulted from increases both in average revenue per advertiser (or "ARPA") and in the number of advertisers. The ARPA for auction-based pay-for-click services was $2,427 and $1,707, respectively, for the three months ended March 31, 2018 and 2017. The number of auction-based pay-for-click advertisers was approximately 75,000 and 67,000, respectively, for the three months ended March 31, 2018 and 2017. The increase in ARPA was primarily attributable to an increase in the number of paid clicks primarily driven by strong growth in mobile paid clicks as a result of rapidly-growing mobile search traffic, and a higher average cost-per-click.

Online Game Revenues Generated by Changyou

Revenues from the online game business were $105.5 million and $85.3 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year increase of 24%. The increase was mainly due to the revenue contribution of the mobile game Legacy TLBB, which was launched in the second quarter of 2017.

PC Games and Mobile Games

Revenues from PC games were $59.5 million and $64.9 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year decrease of 8%. Revenues from PC games accounted for 56% and 76%, respectively, of Changyou online game revenues for the three months ended March 31, 2018 and 2017. 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 PC game. For the three months ended March 31, 2018, the PC game TLBB generated $50.8 million in revenues, accounting for approximately 48% of Changyou's online game revenues, approximately 37% of Changyou's total revenues and approximately 11% of the Sohu Group's total revenues.

Revenues from mobile games were $45.7 million and $19.8 million, respectively, for the three months ended March 31, 2018 and 2017. The dominant mobile game operated by Changyou was Legacy TLBB. The year-on-year increase was mainly due to the revenue contribution of Legacy TLBB. For the three months ended March 31, 2018, the mobile game Legacy TLBB generated $28.2 in revenues, accounting for approximately 27% of Changyou's online game revenues, approximately 21% of Changyou's total revenues, and approximately 6% of the Sohu Group's total revenues.

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) (in millions)	For the Three Months Ended PC games	Mobile games
2017	2.4	1.1
2018	2.5	2.6

Quarterly Aggregate Active Paying Accounts (2) (in millions)	For the Three Months Ended PC games	Mobile games
2017	0.9	0.3
2018	0.8	0.8

(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 $0.3 million and $0.6 million, respectively, for the three months ended March 31, 2018 and 2017.

Other Revenues

Revenues from other services were $72.9 million and $65.4 million, respectively, for the three months ended March 31, 2018 and 2017, representing year-on-year growth of 12%.

The increase from the three months ended March 31, 2017 to the corresponding period of 2018 was $7.5 million, consisting of a $2.9 million increase in revenues from paid subscription services, a $2.7 million increase in revenues from smart hardware products, a $2.4 million increase in revenues from IVAS, and a $1.1 million increase in revenues from content provided through the platforms of the three main telecommunications operators in China, offset by a $2.5 million decrease in revenues from sub-licensing of purchased video content to third parties.

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):

	Three Months Ended March 31, 2017 Amount	Percentage of the total cost	2018 Amount	Percentage of the total cost	2018 vs 2017 Amount	Incremental ratio
Cost of revenues:						
Online advertising:						
Brand advertising	$ 80,197	36%	50,611	19%	(29,586)	(37)%
Search and search-related advertising	82,107	38%	144,696	55%	62,589	76%
Subtotal of cost of online advertising revenues	162,304	74%	195,307	74%	33,003	20%
Online game	16,505	8%	17,119	7%	614	4%
Others	40,070	18%	48,407	19%	8,337	21%
Total cost of revenues	$218,879	100%	260,833	100%	41,954	19%

Cost of Online Advertising Revenues

Cost of online advertising revenues was $195.3 million and $162.3 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year increase of 20%.

Cost of Brand Advertising Revenues

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

Cost of brand advertising revenues was $50.6 million and $80.2 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year decrease of 37%. The $29.6 million decrease mainly consisted of a $24.8 million decrease in content and license costs, a $1.5 million decrease in salary and benefits expenses, a $1.0 million decrease in bandwidth leasing costs, and a $0.8 million decrease in share-based compensation expense.

Our brand advertising gross margin was 10% and 1%, respectively, for the three months ended March 31, 2018 and 2017. The decrease in our brand advertising gross margin was mainly due to decreased video content cost.

Cost of Search and Search-related Advertising Revenues

Cost of search and search-related advertising 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 advertising revenues was $144.7 million and $82.1 million, respectively, for the three months ended March 31, 2018 and 2017, representing a year-on-year increase of 76%. The $62.6 million increase mainly consisted of a $54.1 million increase in traffic acquisition costs, a $4.0 million increase in depreciation and amortization expenses, and a $3.4 million increase in bandwidth leasing costs.

Our search and search-related advertising gross margin was 34% and 42%, respectively, for the three months ended March 31, 2018 and 2017. The decrease in our search and search-related advertising gross margin was mainly due to traffic acquisition costs increasing at a faster rate than revenues.

Cost of Online Game Revenues

Cost of online game revenues mainly consists of revenue-sharing payments, salary and benefits expense, and bandwidth and communication costs.

Cost of online game revenues was $17.1 million and $16.5 million, respectively, for the three months ended March 31, 2018 and 2017, which was stable.

Our online game gross margin was 84% and 81%, respectively, for the three months ended March 31, 2018 and the three months ended March 31, 2017.

Cost of Other Revenues

Cost of other revenues mainly consists of payments to theaters for pre-film screening advertising slots, content and license costs related to paid subscription services, revenue-sharing payments related to the IVAS business, cost of smart hardware products, and revenue-sharing payments related to interactive broadcasting services.

Cost of revenues for other services was $48.4 million and $40.1 million, respectively, for the three months ended March 31, 2018 and 2017, representing year-on-year growth of 21%. The $8.3 million year-on-year increase mainly consisted of a $4.5 million increase in payments to theaters for pre-film screening advertising slots, a $2.0 million increase in Sogou's smart hardware products cost, a $1.5 million increase in revenue-sharing payments related to China mobile network operators, and a $1.1 million increase in revenue-sharing payments related to the IVAS business.

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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 March 31,					
	2017		2018		2018 vs 2017	
	Amount	Percentage of the total expense	Amount	Percentage of the total expense	Amount	Incremental ratio
Operating expenses:						
Product development	$ 84,098	42%	111,543	49%	27,445	33%
Sales and marketing	90,086	44%	90,273	40%	187	0%
General and administrative	28,350	14%	23,836	11%	(4,514)	(16)%
Total operating expenses	$202,534	100%	225,652	100%	23,118	11%

Product Development Expenses

Product development expenses mainly consist of salary and benefits expenses, technical service fees, content and license expenses, depreciation and amortization expenses, facilities expenses, and travelling and entertainment expenses.

Product development expense was $111.5 million for the three months ended March 31, 2018, compared to $84.1 million for the corresponding period of 2017.

The increase in product development expenses from the three months ended March 31, 2017 to the three months ended March 31, 2018 was $27.4 million. The increase mainly consisted of a $22.0 million increase in salary and benefits expenses, and a $2.9 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, travelling and entertainment expenses, and facility expenses.

Sales and marketing expenses were $90.3 million for the three months ended March 31, 2018, which was generally stable compared to $90.1 million for the corresponding period of 2017.

The increase in sales and marketing expenses from the three months ended March 31, 2017 to the three months ended March 31, 2018 was $0.2 million. The increase mainly consisted of a $2.4 million increase in salary and benefits expenses and a $2.1 million increase in travelling and entertainment expenses, offset by a $4.3 million decrease in advertising and promotional expenditures.

General and Administrative Expenses

General and administrative expenses mainly consist of salary and benefits expenses, professional fees, travelling and entertainment expenses, depreciation and amortization expenses, and facility expenses.

General and administrative expenses were $23.8 million for the three months ended March 31, 2018, compared to $28.4 million for the corresponding period of 2017.

The decrease in general and administrative expenses from the three months ended March 31, 2017 to the three months ended March 31, 2018 was $4.5 million. The decrease mainly consisted of a $6.6 million decrease in share-based compensation expense, a $2.0 million decrease in bad debts, a $1.6 million decrease in salary and benefits expenses, offset by a $5.8 million increase in professional fees.

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Share-based Compensation Expense

Share-based compensation expense was recognized in costs and expenses for the three months ended March 31, 2017 and 2018, respectively, as follows (in thousands):

	Three Months Ended March 31,	
Share-based compensation expense	**2017**	**2018**
Cost of revenues	$ 186	$ (450)
Product development expenses	2,327	715
Sales and marketing expenses	665	(89)
General and administrative expenses	4,051	(2,520)
	$ 7,229	$ (2,344)

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

	Three Months Ended March 31,	
Share-based compensation expense	**2017**	**2018**
For Sohu (excluding Sohu Video) share-based awards	$ (2,443)	$ (4,049)
For Sogou share-based awards (2)	4,337	4,279
For Changyou share-based awards	5,533	(2,425)
For Sohu Video share-based awards	(198)	(149)
	$ 7,229	$ (2,344)

Note (1): The negative amount resulted from re-measured compensation expense based on the then-current fair value of the awards on the reporting date.

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 and search-related businesses and compensation expense of $4.0 million recognized in the first quarter of 2017 in connection with Sogou's repurchase of Sogou Pre-IPO Class A Ordinary Shares from the former President and Chief Financial Officer of the Sohu Group, which is equal to the excess of the repurchase price over the fair value of the Sogou Pre-IPO Class A Ordinary Shares as of the repurchase date.

As of March 31, 2018, 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 March 31, 2018**
For Sohu (excluding Sohu Video) share-based awards	$ 0
For Sogou share-based awards (3)	19,614
For Changyou share-based awards	2,674
	$ 22,288

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

Operating Loss

We had an operating loss of $31.5 million and an operating loss of $47.3 million, respectively, for the three months ended March 31, 2018 and 2017.

Other Income

Other income was $12.3 million and $4.1 million, respectively, for the three months ended March 31, 2018 and 2017.

Interest Income

Interest income was $7.8 million and $4.5 million, respectively, for the three months ended March 31, 2018 and 2017.

Interest Expense

Interest expense was $3.1 million and $0.2 million, respectively, for the three months ended March 31, 2018 and 2017.

Income Tax Expense

Income tax expense was $63.4 million for the three months ended March 31, 2018, compared to $10.7 million for the three months ended March 31, 2017.

The increase in income tax expense was mainly due to Changyou's accrual of additional withholding income taxes of approximately $47 million for the period before December 31, 2017 recognized in relation to a change in policy for Changyou's PRC subsidiaries with respect to their distribution of cash dividends.

Net Loss

We had a net loss of $87.2 million for the three months ended March 31, 2018, compared to a net loss of $50.4 million for the three months ended March 31, 2017.

Net Income Attributable to Noncontrolling Interest

We had net income attributable to noncontrolling interest of $5.6 million and $17.9 million, respectively, for the three months ended March 31, 2018 and the three months ended March 31, 2017.

Net Loss Attributable to Sohu.com Inc.

As a result of the foregoing, we had a net loss attributable to Sohu.com Inc. of $92.8 million and $68.2 million, respectively, for the three months ended March 31, 2018 and the three months ended March 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Resources Analysis

Liquidity Sources and Balances

Our principal sources of liquidity are cash and cash equivalents, short-term investments, 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.

As of March 31, 2018, we had cash and cash equivalents of approximately $1.16 billion, restricted cash of $2.1 million, and short-term investments of $1.07 billion. Of our cash and cash equivalents, $458.3 million was held in financial institutions inside Mainland China and $698.1 million was held in financial institutions outside of Mainland China. Of the cash and cash equivalents held in financial institutions inside Mainland China, $17.3 million was held by our VIEs and $441.0 million was held by our PRC-based subsidiaries.

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 March 31, 2018 (in thousands):

As of March 31,	2018	2019	2020	2021	2022	Thereafter	Total Payments Required
Purchase of cinema advertisement slot rights	54,015	59,022	32,845	12,805	1,356	1,352	161,395
Purchase of bandwidth	72,087	2,569	1,242	340	0	0	76,238
Purchase of content and services - video	23,311	19,405	1,179	0	0	0	43,895
Operating lease obligations	14,604	9,431	4,087	77	11	0	28,210
Expenditures for operating rights for licensed games with technological feasibility	11,681	3,531	2,633	0	0	0	17,845
Purchase of content and services - others	10,251	382	93	33	0	0	10,759
Fees for operating rights for licensed games in development	500	0	0	0	0	0	500
Others	4,850	1,301	0	0	0	0	6,151
Total Payments Required	191,299	95,641	42,079	13,255	1,367	1,352	344,993

Cash Generating Ability

Our cash flows are summarized below (in thousands):

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2018
Net cash provided by /(used in) operating activities	$ (31,670)	$ 18,630
Net cash used in investing activities	(62,756)	(249,343)
Net cash provided by /(used in) financing activities	(2,740)	4
Effect of exchange rate change on cash and cash equivalents, and restricted cash	3,474	21,233
Reclassification of cash and cash equivalents from /(to) assets held for sale	11,684	0
Net decrease in cash and cash equivalents, and restricted cash	(82,008)	(209,476)
Cash and cash equivalents, and restricted cash at beginning of period	1,050,957	1,368,024
Cash and cash equivalents, and restricted cash at end of period	$ 968,949	$1,158,548

Net Cash Provided by /(Used in) Operating Activities

For the three months ended March 31, 2018, $18.6 million net cash provided by operating activities was primarily attributable to our net loss of $87.2 million, adjusted by (i) the add back of non-cash items consisting of $39.3 million in depreciation and amortization, $1.1 million in impairment of intangible assets, and $0.3 million in provision for allowance for doubtful accounts, (ii) offset by $9.3 million in change in fair value of financial instruments, $2.3 million in share-based compensation expense, and $2.1 million in investment loss from equity investments. An increase in cash from $78.8 million in working capital items is also included in operating cash flow.

For the three months ended March 31, 2017, $31.7 million net cash used in operating activities was primarily attributable to our net loss of $50.4 million, adjusted by (i) the add back of non-cash items consisting of $55.1 million in depreciation and amortization, $3.2 million in share-based compensation expense, $2.0 million in provision for allowance for doubtful accounts, $0.6 million in investment loss from equity investments, and $0.4 million in impairment of intangible assets, (ii) offset by $2.1 million in change in fair value of financial instruments, and $0.3 million of other items . A decrease in cash from $40.2 million in working capital items is also included in operating cash flow.

Net Cash Used in Investing Activities

For the three months ended March 31, 2018, $249.3 million net cash used in investing activities was primarily attributable to (i) $663.4 million used in purchase of financial instruments, $25.8 million used in purchase of fixed assets and intangible assets, and $17.0 million used in the purchase of a long-term investment, (ii) offset by $456.9 million in proceeds from financial instruments.

For the three months ended March 31, 2017, $62.8 million net cash used in investing activities was primarily attributable to (i) $119.0 million used in purchase of financial instruments, $33.8 million used in purchase of fixed assets and intangible assets, and $2.2 million used in the purchase of a long-term investment, (ii) offset by $87.3 million in proceeds from financial instruments, and $4.9 million from loan repayment to Changyou by a third party.

Net Cash Provided by /(Used in) Financing Activities

For the three months ended March 31, 2018, $4,000 net cash provided by financing activities was primarily attributable to $4,000 received from exercise of share-based awards in a subsidiary.

For the three months ended March 31, 2017, $2.7 million net cash used in financing activities was primarily attributable to (i) $3.2 million used in the repurchase of Sogou Pre-IPO Class A Common Shares from a noncontrolling shareholder, (ii) offset by $0.5 million received from exercise of share-based awards in a subsidiary.

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 subsidiaries Sohu.com Limited, Sogou Inc., and Changyou.com Limited. Since substantially all of our operations are conducted through our indirect Mainland China-based subsidiaries and VIEs, Sohu.com Limited, Sogou Inc., 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, Sogou Inc., 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 and our subsidiary and VIE structure. We do not expect any of such restrictions or taxes to have a material impact on our ability to meet our cash obligations. However, such restrictions and taxes limit our ability to use Sohu Group cash and cash equivalents held by Changyou and its subsidiaries and VIEs, and by Sogou and its subsidiaries and VIEs, for our Sohu business separate from Changyou and Sogou. See "Risk Factors – Risks Related to Our Corporate Structure – Although the Sohu Group holds substantial amounts of cash and cash equivalents, a significant portion of such cash and cash equivalents is held by Changyou and Sogou, and it can be difficult for Sohu to have access to the portion held by Changyou and Sogou." of our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission (the "SEC") on February 28, 2018.

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 by Sohu.com Limited, Sogou's parent company Sohu.com (Search) 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 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 withholding tax at a rate of 10%. As of March 31, 2018, we had accrued deferred tax liabilities in the amount of $82.7 million for withholding taxes associated with dividends paid by Changyou's Mainland China-based WFOEs to Changyou's Hong Kong subsidiary.

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

A significant portion of our operations is conducted through our VIEs, which generate a significant amount of our revenues. Significant cash balances remained in certain of our VIEs as of March 31, 2018. As our VIEs are not owned by our 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 our PRC subsidiaries, in some cases we may need to rely on payments made by our VIEs to our PRC subsidiaries pursuant to service contracts between them. Depending on the nature of services provided by our 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 21% for taxable years beginning after December 31, 2017 and of up to 35% for prior tax years. The U.S. Tax Reform significantly modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time transition tax on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings. Taxpayers may elect to pay the one-time transition tax over eight years, or in a single lump-sum payment.

To the extent that portions of its U.S. taxable income, such as Subpart F income or GILTI, 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 our consolidated statements of comprehensive income and estimated tax payments are made when required by U.S. law.

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 for the foreseeable future. Future cash dividends distributed by Sohu.com Inc., 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. For the revision of dividend policy of Changyou's PRC subsidiaries, please refer to "PRC Withholding Tax on Dividends"

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. We are not subject to any additional potential payments. 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.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENT

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. On January 1, 2018, we adopted ASC 606, applying using the modified retrospective method to contracts that were not completed as of January 1, 2018. Adoption did not have a material impact on retained earnings as of January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605. Additional disclosures have been made. Please see the Notes to Condensed Consolidated Financial Statements for details.

ASU 2016-01 ("ASU 2016-01"), Recognition and Measurement of Financial Assets and Financial Liabilities amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The main provisions require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value through earnings, unless they qualify for a measurement alternative. The new guidance will require modified retrospective application to all outstanding instruments beginning January 1, 2018, with a cumulative effect adjustment recorded to opening retained earnings as of the beginning of the first period in which the guidance becomes effective. However, changes to the accounting for equity securities without a readily determinable fair value will be applied prospectively. Additional disclosures have been made. Please see the Notes to Condensed Consolidated Financial Statements for details.

Statements of Cash Flows (Topic 230): Restricted Cash. In November 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-18, *Statements of Cash Flows (Topic 230): Restricted Cash*. The guidance requires that a statement of cash flows explain the changes during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The standard is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The standard should be applied to each period presented using a retrospective transition method. The adoption of this standard does not have a material impact on our consolidated financial statements, but resulted in restricted cash being included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows.

Other accounting standards adopted beginning January 1, 2018 do not have a significant impact on our condensed consolidated financial statements.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

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, generally on a 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 publicly-traded 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.

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.

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04, *"Simplifying the Test for Goodwill Impairment."* The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

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.

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, and 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 June 19, 2010, the People's Bank of China announced that it had 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 March 17, 2014, 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 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 March 31, 2018. These financial instruments are recorded at their fair value.

	Denominated in (in thousands)				
	US$	RMB	HK$	Others	Total
Cash and cash equivalents	$692,232	$ 457,667	$5,238	$1,271	$1,156,408
Restricted cash	0	2,140	0	0	2,140
Short-term investments	558,513	516,025	0	0	1,074,538
Accounts receivable, net	3,783	212,123	1,084	158	217,148
Prepaid and other current assets	3,667	207,860	0	169	211,696
Equity investments with readily determinable fair values	0	12,725	0	0	12,725
Restricted time deposits	240	32	0	0	272
Current liabilities	52,748	1,153,128	2,132	496	1,208,504
Long-term bank loans	0	127,224	0	0	127,224
Long-term accounts payable	0	1,203	0	0	1,203

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 2.1% in the first quarter of 2018, compared to an increase of 1.4% in the first quarter of 2017. The increase in the rate of inflation and any additional increase in the future could have an adverse effect on our business.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of the end of the period covered by this 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

From time to time we become subject to legal proceedings and claims in the ordinary course of our business. Such legal proceedings and 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 I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 28, 2018.

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

USE OF PROCEEDS

On July 17, 2000, Sohu.com Inc. completed an underwritten IPO of our common stock pursuant to a Registration Statement on Form S-1 (SEC file No. 333-96137), which became effective on July 10, 2000. There has been no change in the information regarding use of proceeds from the IPO that was included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 28, 2018.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Please see the Exhibits Index attached hereto.

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Sohu.com Inc.

Quarterly Report on Form 10-Q for Quarter Ended March 31, 2018

EXHIBITS INDEX

10.1(1)	English translation of Credit Facility Agreement, dated April 11, 2018, between CMB and Beijing Sohu New Media Information Technology Co., Ltd.
10.2(1)	English translation of Asset Pledge Agreement, dated April 11, 2018, between CMB and Beijing Sohu New Era Information Technology Co., Ltd.
10.3(1)	English translation of Asset Pledge Agreement, dated April 11, 2018, between CMB and Beijing Sohu New Media Information Technology Co., Ltd.
10.4(1)	English translation of Letter of Commitment, dated April 11, 2018, issued by Sohu.com Inc.
31.1(2)	Rule 13a-14(a)/15d-14(a) Certification of Charles Zhang
31.2(2)	Rule 13a-14(a)/15d-14(a) Certification of Joanna Lv
32.1(2)	Section 1350 Certification of Charles Zhang
32.2(2)	Section 1350 Certification of Joanna Lv
101(2)	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017; (ii) Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2018 and 2017; (iii) Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017; (iv) Condensed Consolidated Statements of Changes in Equity for the Three Months Ended March 31, 2018 and 2017; 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 April 16, 2018.
(2) Filed herewith.

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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: May 8, 2018

SOHU.COM INC.

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

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: May 8, 2018

/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: May 8, 2018

/s/ Joanna Lv

Joanna Lv
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 March 31, 2018 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 March 31, 2018 and results of operations of the Company for the three months ended March 31, 2018.

/s/ Charles Zhang

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

May 8, 2018

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 March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joanna Lv, 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 March 31, 2018 and results of operations of the Company for the three months ended March 31, 2018.

/s/ Joanna Lv

Joanna Lv, Chief Financial Officer
May 8, 2018