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

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**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009**

OR

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

**FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**COMMISSION FILE NUMBER 0-30961**

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**Sohu.com Inc.**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

(Address, including zip code, of registrant's principal executive offices  
and registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding at June 30, 2009
<b>Common stock, \$.001 par value</b>	<b>38,333,567</b>

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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	
	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 546,746	\$ 314,425
Accounts receivable, net	53,333	36,869
Prepaid and other current assets	10,833	27,551
Total current assets	610,912	378,845
Fixed assets, net	74,974	76,237
Goodwill	55,555	55,555
Intangible assets, net	5,207	5,654
Restricted cash	—	2,671
Other assets, net	2,358	2,914
Total assets	<u>\$ 749,006</u>	<u>\$ 521,876</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,716	\$ 4,339
Accrued liabilities to suppliers and agents	34,184	33,054
Receipts in advance and deferred revenue	28,320	31,446
Tax payables	21,680	18,892
Other accrued liabilities	43,480	43,051
Total current liabilities	134,380	130,782
Commitments and contingencies (Note 8)		
Shareholders' equity		
Sohu.com Inc. shareholders' equity:		
Common stock: \$0.001 par value per share (75,400 authorized; 38,334 and 38,095 shares issued and outstanding, respectively)	43	43
Additional paid-in capital	310,165	201,196
Treasury stock (4,638 shares)	(74,683)	(74,683)
Accumulated other comprehensive income	21,361	21,349
Retained earnings	316,171	238,041
Total Sohu.com Inc. shareholders' equity	573,057	385,946
Noncontrolling interest (Note 9)	41,569	5,148
Total shareholders' equity	614,626	391,094
Total liabilities and shareholders' equity	<u>\$ 749,006</u>	<u>\$ 521,876</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Advertising:				
Brand advertising	\$ 43,621	\$ 41,691	\$ 82,695	\$ 74,846
Sponsored search	1,769	1,693	3,331	3,307
Subtotal of advertising revenues	45,390	43,384	86,026	78,153
Online game	66,596	47,896	128,203	88,851
Wireless and others	15,099	10,700	28,594	19,799
Total revenues	127,085	101,980	242,823	186,803
<b>Cost of revenues:</b>				
Advertising:				
Brand advertising	14,065	13,907	27,795	25,159
Sponsored search	2,265	1,605	4,563	3,125
Subtotal of cost of advertising revenues	16,330	15,512	32,358	28,284
Online game	3,937	3,505	7,373	6,713
Wireless and others	8,512	5,858	16,641	10,170
Total cost of revenues	28,779	24,875	56,372	45,167
Gross profit	98,306	77,105	186,451	141,636
<b>Operating expenses:</b>				
Product development	14,637	10,798	27,951	22,277
Sales and marketing	25,810	21,408	42,636	37,548
General and administrative	9,208	4,827	17,102	11,012
Amortization of intangible assets	128	199	202	395
Total operating expenses	49,783	37,232	87,891	71,232
Operating profit	48,523	39,873	98,560	70,404
Other income (expense)	62	(575)	63	(532)
Interest income and exchange difference	1,274	1,480	2,396	1,646
Income before income tax expense	49,859	40,778	101,019	71,518
Income tax expense	7,969	577	14,555	9,762
Income from continuing operations	41,890	40,201	86,464	61,756
Gain (loss) from discontinued e-commerce operations	446	—	446	(1)
Net income	42,336	40,201	86,910	61,755
Less: Net income attributable to the noncontrolling interest (Note 9)	8,801	12	8,780	4
Net income attributable to Sohu.com Inc.	\$ 33,535	\$ 40,189	\$ 78,130	\$ 61,751
Basic net income per share attributable to Sohu.com Inc.	\$ 0.88	\$ 1.05	\$ 2.04	\$ 1.63
Shares used in computing basic net income per share attributable to Sohu.com Inc.	38,284	38,108	38,223	37,934
Diluted net income per share attributable to Sohu.com Inc.	\$ 0.79	\$ 1.02	\$ 1.94	\$ 1.57
Shares used in computing diluted net income per share attributable to Sohu.com Inc.	39,018	39,429	38,935	39,234

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

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

	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income	\$ 86,910	\$ 61,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,833	6,154
Share-based compensation expense	8,901	5,668
Amortization of intangible assets and other assets	902	1,582
Provision for allowance for doubtful accounts	485	137
Reversal of excess tax benefits/(excess tax benefits) from share-based payment arrangements	678	(2,465)
Others	209	940
Changes in current assets and liabilities:		
Prepaid and other current assets	13,692	(14,167)
Accounts receivable	(16,704)	(6,888)
Tax payables	1,700	12,955
Accrued liabilities to suppliers and agents	1,130	6,078
Receipts in advance and deferred revenue	(3,126)	10,296
Accounts payable	2,377	1,317
Other accrued liabilities	(1,623)	15,503
Net cash provided by operating activities	<u>103,364</u>	<u>98,865</u>
Cash flows from investing activities:		
Purchase of fixed assets	(4,954)	(17,266)
Purchase of intangible and other assets	(137)	(624)
Decrease in restricted cash	2,671	1,489
Net cash used in investing activities	<u>(2,420)</u>	<u>(16,401)</u>
Cash flows from financing activities:		
Issuance of common stock	3,015	11,872
(Reversal of excess tax benefits)/excess tax benefits from share-based payment arrangements	(678)	2,465
Cash contributions received from a noncontrolling interest shareholder	—	427
Proceeds from Changyou's initial public offering	128,340	—
Other proceeds relating to financing activities	1,087	—
Other payments relating to financing activities	(263)	—
Net cash provided by financing activities	<u>131,501</u>	<u>14,764</u>
Effect of exchange rate changes on cash and cash equivalents	(124)	6,049
Net increase in cash and cash equivalents	<u>232,321</u>	<u>103,277</u>
Cash and cash equivalents at beginning of period	<u>314,425</u>	<u>122,706</u>
Cash and cash equivalents at end of period	<u>\$ 546,746</u>	<u>\$ 225,983</u>

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

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

**Six Months Ended June 30, 2009**  
**(In thousands)**

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

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

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

**Six Months Ended June 30, 2008**  
**(In thousands)**

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

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. (“Sohu” or “the Company”), a Delaware corporation organized in 1996, is a leading Internet company providing comprehensive online products and services in the People’s Republic of China (the “PRC” or “China”). The Company together with its wholly-owned and majority-owned subsidiaries and variable interest entities (collectively the “Sohu Group”) mainly offer advertising services (through brand advertising and sponsored search), online game services and wireless services through Internet sites: sohu.com, 17173.com, focus.cn, chinaren.com, sogou.com, and changyou.com.

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

***Basis of Consolidation***

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

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

***Basis of Presentation***

The accompanying unaudited condensed consolidated interim financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the three and six months ended June 30, 2009 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

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

These financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States (“US GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by US GAAP for complete financial statements.

These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

**2. CHANGYOU TRANSACTIONS**

***Share Award to Tao Wang, Chief Executive Officer of Changyou***

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

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

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

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

### ***Changyou's 2008 Share Incentive Plan***

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

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

### ***Initial Public Offering of Changyou***

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

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

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

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

### ***Sohu's Shareholding in Changyou***

#### ***Shareholding and Control***

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

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

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

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### *Economic Interest*

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

### *Fully Diluted Earnings per Share*

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

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

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

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

### *Gain on Initial Public Offering of Changyou*

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

## **3. SEGMENT INFORMATION**

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

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

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

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

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

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

	Three Months Ended June 30, 2008							
	Segments Other Than Online Game				Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
	Brand Advertising	Sponsored Search	Wireless	Others				
Revenues	\$ 49,823	\$ 1,693	\$ 9,166	\$ 1,534	\$ 62,216	\$ 47,896	\$ (8,132)	\$ 101,980
Segment cost of revenues	(13,612)	(1,599)	(5,480)	(376)	(21,067)	(3,514)	14	(24,567)
Segment gross profit	\$ 36,211	\$ 94	\$ 3,686	\$ 1,158	41,149	44,382	(8,118)	77,413
SBC (1) in cost of revenues					(303)	(5)	—	(308)
Gross profit					40,846	44,377	(8,118)	77,105
Operating expenses:								
Product development					(5,441)	(4,129)	—	(9,570)
Sales and marketing					(18,966)	(9,549)	7,335	(21,180)
General and administrative					(3,256)	(1,960)	783	(4,433)
Amortization of intangible assets					(199)	—	—	(199)
SBC (1) in operating expenses					(973)	(877)	—	(1,850)
Total operating expenses					(28,835)	(16,515)	8,118	(37,232)
Operating profit					12,011	27,862	—	39,873
Other expense					(287)	(288)	—	(575)
Interest income and exchange difference					1,316	164	—	1,480
Income tax (expense)/benefit					(4,462)	3,885	—	(577)
Income from continuing operations					\$ 8,578	\$ 31,623	\$ —	\$ 40,201

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

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

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

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

Six Months Ended June 30, 2008								
Segments Other Than Online Game								
	Brand Advertising	Sponsored Search	Wireless	Others	Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
Revenues	\$ 90,334	\$ 3,307	\$ 17,759	\$ 2,040	\$ 113,440	\$ 88,851	\$ (15,488)	\$ 186,803
Segment cost of revenues	(24,555)	(3,113)	(9,411)	(755)	(37,834)	(6,738)	35	(44,537)
Segment gross profit	<u>\$ 65,779</u>	<u>\$ 194</u>	<u>\$ 8,348</u>	<u>\$ 1,285</u>	75,606	82,113	(15,453)	142,266
SBC (1) in cost of revenues					(620)	(10)	—	(630)
Gross profit					<u>74,986</u>	<u>82,103</u>	<u>(15,453)</u>	<u>141,636</u>
Operating expenses:								
Product development					(10,822)	(7,964)	—	(18,786)
Sales and marketing					(32,831)	(18,103)	13,894	(37,040)
General and administrative					(7,427)	(4,105)	1,559	(9,973)
Amortization of intangible assets					(395)	—	—	(395)
SBC (1) in operating expenses					(2,170)	(2,868)	—	(5,038)
Total operating expenses					<u>(53,645)</u>	<u>(33,040)</u>	<u>15,453</u>	<u>(71,232)</u>
Operating profit					21,341	49,063	—	70,404
Other expense					(241)	(291)	—	(532)
Interest income and exchange difference					1,504	142	—	1,646
Income tax expense					(7,678)	(2,084)	—	(9,762)
Income from continuing operations					<u>\$ 14,926</u>	<u>\$ 46,830</u>	<u>\$ —</u>	<u>\$ 61,756</u>

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

As of June 30, 2009

	Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
Cash	\$ 270,890	\$ 275,856	\$ —	\$ 546,746
Accounts receivable, net	51,928	1,405	—	53,333
Fixed assets, net	65,873	9,101	—	74,974
Total assets (1)	554,183	295,007	(100,184)	749,006

Note(1): The intercompany eliminations mainly consisted of dividend receivable elimination of \$96.8 million, for the dividend distribution declared by Changyou to Sohu Game in the second quarter of 2009. Both Changyou and Sohu Game are within the Sohu Group.

As of December 31, 2008

	Segments Other Than Online Game Total	Online Game	Intercompany Eliminations	Consolidated
Cash	\$ 179,986	\$ 134,439	\$ —	\$ 314,425
Accounts receivable, net	35,850	1,019	—	36,869
Fixed assets, net	66,977	9,260	—	76,237
Total assets	355,947	176,656	(10,727)	521,876

#### 4. INCOME TAX EXPENSE

Sohu.com Inc. and AmazGame Entertainment (US) Inc. are subject to taxes in the United States. Some of the subsidiaries in the Sohu Group are subject to taxes in Hong Kong at 16.5%. The majority of the subsidiaries and VIEs in the Sohu Group are China-based and are subject to taxes in PRC. Substantially all of the Sohu Group's operations are conducted, and most of the Sohu Group's income is generated, through these China-based subsidiaries and VIEs.

##### **PRC Corporate Income Tax**

###### *Advertising Business*

The current PRC *Corporate Income Tax Law* ("CIT") imposes a unified income tax rate of 25% for both domestic and foreign invested enterprises. Under the current CIT, New Technology Enterprises can enjoy a preferential income tax rate of 15%, but after a three-year validation period, New Technology Enterprises need to re-apply for this qualification. Under the previous income tax laws and regulations, New Technology Enterprises enjoyed a favorable tax rate of 15% and were exempted from income tax for three years beginning with their first year of operations, and were entitled to a 50% tax reduction to 7.5% for the subsequent three years and 15% thereafter. The current CIT provides grandfathering treatment for enterprises that were (1) qualified as New Technology Enterprises under the previous PRC income tax laws, and (2) established before March 16, 2007, if they continue to meet the criteria for New Technology Enterprises under the current CIT. The grandfathering provision allows these enterprises to continue to enjoy their unexpired tax holidays provided by the previous income tax laws and regulations.

In 2008, three China-based subsidiaries in the Sohu Group, Beijing Sohu New Era Information Technology Co., Ltd. ("Sohu Era"), Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media") and Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology") qualified as "New Technology Enterprises" under the current CIT and met the requirements to enjoy their unexpired tax holidays. Accordingly, from 2009 to 2010, Sohu Era will be subject to a 15% income tax rate. Sohu Media and Sogou Technology will enjoy a 7.5% income tax rate in the same period due to their unexpired tax holidays. These companies will be required to re-apply for a certificate of qualification in 2011.

In the second quarter of 2009, the PRC tax bureau communicated to some subsidiaries within the Sohu Group that certain expenses should not be treated as deductible before corporate income tax, although the current CIT is silent in that regard. For such expenses, the Sohu Group had treated them as tax deductible in previous periods. This treatment has been communicated to the tax bureau, without the Sohu Group's receiving any objections or challenges with respect to prior PRC corporate income tax filings.

Based on the tax bureau's current interpretation, the Sohu Group concluded that it was more likely than not that such expenses would not be allowed by the tax bureau for income tax deduction. Hence, in accordance with FIN 48 "*Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*", the Sohu Group recognized income tax expense of \$1.2 million in this quarter as a result of the change in the tax bureau's position. In addition, in order to be prudent, the Sohu Group will not reverse this treatment unless the Sohu Group receives a written clarification issued by tax authority that this kind of expense is deductible for income tax purposes.

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### *Online Game Business*

AmazGame and Gamease, China-based subsidiary and VIE of Changyou in the Sohu Group, were qualified as “Software Enterprises” under the current CIT, and both are subject to a 0% income tax rate for the full year of 2008 and a 50% tax reduction to a rate of 12.5%, from fiscal year 2009 to fiscal year 2011.

### ***PRC Withholding Tax on Dividends***

The current CIT imposes a 10% withholding income tax for dividends distributed by foreign invested enterprises to their immediate holding companies outside 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. Holding companies in Hong Kong, for example, will be subject to a 5% tax rate.

In the fourth quarter of 2008, AmazGame declared a dividend to its immediate holding company in Hong Kong and a withholding tax of approximately \$5.0 million was accrued based on a 5% withholding tax rate.

As of June 30, 2009, the Company has not recorded any other withholding tax on the retained earnings of its foreign invested enterprises in the PRC since the Company intends to reinvest earnings to further expand its business in mainland China, and its foreign invested enterprises do not intend to declare dividends to their immediate foreign holding companies.

## **5. NET INCOME PER SHARE**

Pursuant to SFAS 128, basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income 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 of share-based awards, using the treasury stock method. Additionally, for purposes of calculating diluted net income per share, Sohu’s consolidated net income is adjusted for Changyou’s net income multiplied by the difference between:

- (a) the percentage of the total economic interests in Changyou held by Sohu, which was 74.4% for the second quarter of 2009, and
- (b) the percentage of the weighted average number of Changyou shares held by Sohu to the weighted average number of Changyou ordinary shares and shares issuable upon the exercise of share-based awards, which was 66.7% for the second quarter of 2009.

The percentage of 66.7% was calculated under the treasury stock method in compliance with SFAS 128. Under the treasury stock method, all of Changyou’s existing unvested restricted shares and unvested restricted share units were treated as vested and issued by Changyou. Hence, Changyou’s share number increased on a fully diluted basis, causing the percentage of Changyou’s net income attributable to Sohu to decrease from 74.4% to 66.7%.

This adjustment is presented as “incremental dilution from Changyou” in the table below.

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The following table presents the calculation of basic and diluted net income per share (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Numerator:</b>				
Net income from continuing operations attributable to Sohu.com Inc.	\$33,089	\$40,189	\$77,684	\$61,752
Gain (Loss) from discontinued e-commerce operations attributable to Sohu.com Inc.	446	—	446	(1)
Net income attributable to Sohu.com Inc., basic	33,535	40,189	78,130	61,751
Incremental dilution from Changyou	(2,659)	—	(2,659)	—
Net income attributable to Sohu.com Inc., diluted	<u>\$30,876</u>	<u>\$40,189</u>	<u>\$75,471</u>	<u>\$61,751</u>
<b>Denominator:</b>				
Weighted average basic common shares outstanding	38,284	38,108	38,223	37,934
<b>Effect of dilutive securities:</b>				
Stock options and restricted share units	734	1,321	712	1,300
Weighted average diluted common shares outstanding	<u>39,018</u>	<u>39,429</u>	<u>38,935</u>	<u>39,234</u>
<b>Basic net income per share attributable to Sohu.com Inc.</b>				
- Continuing operations	\$ 0.87	\$ 1.05	\$ 2.03	\$ 1.63
- Discontinued e-commerce operations	0.01	—	0.01	(0.00)
Basic net income per share attributable to Sohu.com Inc.	<u>\$ 0.88</u>	<u>\$ 1.05</u>	<u>\$ 2.04</u>	<u>\$ 1.63</u>
<b>Diluted net income per share attributable to Sohu.com Inc.</b>				
- Continuing operations	\$ 0.78	\$ 1.02	\$ 1.93	\$ 1.57
- Discontinued e-commerce operations	0.01	—	0.01	(0.00)
Diluted net income per share attributable to Sohu.com Inc.	<u>\$ 0.79</u>	<u>\$ 1.02</u>	<u>\$ 1.94</u>	<u>\$ 1.57</u>

## 6. SHARE-BASED COMPENSATION EXPENSE

The Company has accounted for share-based compensation expense under the provisions of SFAS 123(R), *Share-Based Payment* (“SFAS 123(R)”), and Staff Accounting Bulletin 107 (“SAB 107”), based on the grant date fair values of awards.

Estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by employees who receive equity awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by the Company under SFAS 123(R).

Share-based compensation expense included in costs and expenses includes (in thousands):

	Six Months Ended June 30,	
	2009	2008
Cost of revenues	\$ 602	\$ 630
Product development expenses	4,573	3,491
Sales and marketing expenses	499	508
General and administrative expenses	3,227	1,039
	<u>\$8,901</u>	<u>\$5,668</u>

### 1) Sohu.com Inc. Share Awards

Sohu.com Inc.’s 2000 Stock Incentive Plan, including stock options and restricted share units, provides for the issuance of up to 9,500,000 shares of common stock. The maximum term of any issued stock right is ten years from the grant date.

Sohu.com Inc. has reserved 9,500,000 shares of new common stock for issuance. As of June 30, 2009, 1,065,590 shares were available for grant under the plan.

A summary of option activity under this 2000 Stock Incentive Plan as of and for the six months ended June 30, 2009 is presented below:



<u>Options</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding at January 1, 2009	799,000	\$ 16.72	5.63	\$ 24,474
Exercised	(178,000)	16.82		
Forfeited or expired	(2,000)	17.41		
Outstanding at June 30, 2009	<u>619,000</u>	16.69	5.09	28,561
Vested at June 30, 2009 and expected to vest thereafter	<u>618,000</u>	16.71	5.10	28,501
Exercisable at June 30, 2009	<u><u>610,000</u></u>	16.71	5.08	28,147

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The aggregate intrinsic value in the preceding table represents the difference between Sohu.com Inc.'s closing stock price of \$62.83 on June 30, 2009 and the exercise price.

The total intrinsic value of options exercised during the six month period ended June 30, 2009 was \$6.1 million.

A summary of restricted share units activity under the 2000 Stock Incentive Plan as of and for the six months ended June 30, 2009 is presented below:

<u>Restricted Share Units</u>	<u>Number of Units</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2009	405,000	\$31.35
Granted	13,000	52.56
Vested	(54,000)	35.61
Forfeited	(23,000)	35.78
Unvested at June 30, 2009	<u>341,000</u>	<u>31.17</u>
Expected to vest thereafter	<u>242,000</u>	31.42

As of June 30, 2009, there was \$29,000 of unrecognized compensation expense related to options for which services had not been provided. The expense is expected to be recognized over a weighted average period of 0.27 years. Total share-based compensation expense recognized for options under this 2000 Stock Incentive Plan during the three months ended June 30, 2009 and 2008 was \$55,000 and \$0.3 million, respectively.

As of June 30, 2009, there was \$3.0 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 0.89 years. Total share-based compensation expense recognized for restricted share units under this 2000 Stock Incentive Plan during the three months ended June 30, 2009 and 2008 was \$0.9 million and \$1.1 million, respectively.

There was no capitalized share-based compensation expense during the three months ended June 30, 2009 and 2008.

During the six months ended June 30, 2009 and 2008, total cash received from the exercise of stock options amounted to \$3.0 million and \$11.9 million, respectively.

## **2) Changyou Share Awards**

### *Changyou's 2008 Share Incentive Plan*

On December 31, 2008, Changyou reserved 2,000,000 of its ordinary shares, which included 1,774,000 Class B ordinary shares and 226,000 Class A ordinary shares, for issuance to its executive officers and key employees as incentive compensation under its 2008 Share Incentive Plan.

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

As of June 30, 2009, Changyou had granted under the incentive plan 15,000,000 Class B ordinary shares and Class B restricted ordinary shares to Tao Wang through Prominence and 4,396,000 Class A and Class B restricted share units (settleable upon vesting in Class A ordinary shares and Class B ordinary shares, respectively) to its executive officers other than Tao Wang and to its key employees.

Total share-based compensation expense recognized during the three months ended June 30, 2009 for awards under Changyou's 2008 Share Incentive Plan was \$5.6 million, including \$2.6 million generated but not recognized before the completion of Changyou's initial public offering because initial vesting was conditioned on completion of the offering.

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### *Share Award to Tao Wang, Chief Executive Officer of Changyou*

In January 2008 (See Note 2 - Changyou Transactions), the difference between the fair values (“Incremental Fair Value”), of the 700,000 ordinary shares and 800,000 restricted ordinary shares granted to Tao Wang and his contingent right in Beijing Fire Fox was accounted for as share-based compensation expense under SFAS 123(R). Because the terms of the issuance of the ordinary shares and restricted ordinary shares had been approved and were communicated to and agreed with Tao Wang as of January 2, 2008, this was considered the grant date under US GAAP and, accordingly, the Incremental Fair Value was determined as of that date. The portion of the Incremental Fair Value related to the 700,000 ordinary shares, equal to \$1.8 million, was recognized as share-based compensation expense in product development expenses for the three months ended March 31, 2008. As a result of the modification of the vesting terms of the 800,000 restricted ordinary shares in April 2008, the portion of the Incremental Fair Value related to those shares, equal to \$7.0 million, was determined in April 2008, and was accounted for as share-based compensation expense over the vesting period starting from the date of the modification, following the accelerated basis of attribution. The Incremental Fair Values were determined using the discounted cash flow method.

On March 16, 2009, the ordinary shares described above, which had been issued as 700,000 Class B ordinary shares and 800,000 Class B restricted ordinary shares, became 7,000,000 Class B ordinary shares and 8,000,000 Class B restricted ordinary shares, respectively, as a result of a ten-for-one share split by Changyou effected on that date.

A summary of 8,000,000 Class B restricted ordinary shares activity as of and for the six months ended June 30, 2009 is presented below. The shares and fair value presented in the following form have been revised on a retroactive basis to give effect to the ten-for-one share split.

<u>Class B Restricted Ordinary Shares</u>	<u>Number of Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2009	8,000,000	\$1.36
Granted	—	
Vested	(2,000,000)	1.36
Unvested at June 30, 2009	6,000,000	1.36
Expected to vest thereafter	6,000,000	1.36

For the three months ended June 30, 2009 and 2008, share-based compensation expense of \$0.5 million and \$0.8 million, respectively, was recognized in product development expenses. This expense was related to the 8,000,000 Class B restricted ordinary shares (which were 800,000 restricted shares for the six months ended June 30, 2008). As of June 30, 2009, there was \$2.8 million of unrecognized compensation expense related to unvested Class B restricted ordinary shares of Changyou granted to Tao Wang.

The fair value as of the January 2008 grant date of restricted ordinary shares was determined by relying in part on a report prepared by a qualified professional appraiser. Determining the fair value of the ordinary shares of Changyou required complex and subjective judgments regarding Changyou’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.

Because at the time of the grants Changyou’s business was at a different stage of its product life cycle than that of the publicly-listed companies in the online game industry, it was concluded that a market comparison approach would not have been meaningful in determining the fair value of Changyou ordinary shares. As a result, Changyou and a qualified professional appraiser used the income approach/discounted cash flow method to derive the fair values. Changyou applied the discounted cash flow analysis based on Changyou’s projected cash flow using management’s best estimate as of the respective valuation dates. The projected cash flow estimate included, among other things, an analysis of projected revenue growth, gross margins, effective tax rates, capital expenditures and working capital requirements. The income approach involves applying appropriate discount rates, based on earnings forecasts, to estimated cash flows. The assumptions Changyou used in deriving the fair value of its ordinary shares were consistent with the assumptions used in developing its online game business plan, which included no material changes in the existing political, legal, fiscal and economic conditions in China; its ability to recruit and retain competent management, key personnel and technical staff to support its ongoing operations; and no material deviation in industry trends and market conditions from economic forecasts. These assumptions are inherently uncertain and subjective. The discount rates reflect the risks the management perceived as being associated with achieving the forecasts and are based on the estimated cost of capital for Changyou, which was derived by using the capital asset pricing model, after taking into account systemic risks and company-specific risks. The capital asset pricing model is a model for pricing securities that adds an assumed risk premium rate of return to an assumed risk-free rate of return. Using this method, Changyou determined the appropriate discount rates to be 22% as of the January 2008 valuation date.

Changyou also applied a discount for lack of marketability, or DLOM, to reflect the fact that, at the time of the grants, Changyou was a closely-held company and there was no public market for its ordinary shares. To determine the discount for lack of marketability, Changyou and a qualified professional appraiser used the Black-Scholes option pricing model. Pursuant to the Black-Scholes option pricing model, Changyou used the cost of a put option, which can be used to hedge the price change before a privately held share can be sold, as the basis to determine the discount for lack of marketability. Based on the foregoing analysis, Changyou used a DLOM of

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19% to discount the value of Changyou's ordinary shares as of January 2008. Because there was no evidence to indicate that there would be a disproportionate return between majority and noncontrolling interest shareholders, Changyou did not apply a noncontrolling interest discount.

### *Share Awards to Executive Officers (other than Tao Wang) and Certain Key Employees*

In April 2008, Changyou approved and communicated to executive officers other than Tao Wang the grant of an aggregate of 180,000 restricted ordinary shares and to certain key employees the grant of an aggregate of 94,000 restricted share units of Changyou (settleable in ordinary shares upon vesting). These restricted ordinary shares and restricted share units were subject to vesting over a four-year period commencing on February 1, 2008, with initial vesting also subject to the listing of Changyou's Class A ordinary shares in an initial public offering by Changyou. The fair value of the awards at grant date was recognized in the consolidated statement of operations starting from April 2, 2009, when ADSs representing Changyou's Class A ordinary shares were first listed on the NASDAQ Global Select Market.

On January 15, 2009, Changyou issued 180,000 Class B restricted ordinary shares to executive officers other than Tao Wang and granted 94,000 Class B restricted share units to certain key employees.

On March 13, 2009, Changyou exchanged the 180,000 Class B restricted ordinary shares for Class B restricted share units, that otherwise have the same vesting and other terms as applied to the Class B restricted ordinary shares described above. Including the exchange, Class B restricted share units granted to executive officers other than Tao Wang and certain key employees totaled 274,000.

On March 16, 2009, the above 274,000 Class B restricted share units became 2,740,000 Class B restricted share units as a result of the ten-for-one share split effected on that date.

A summary of the above Class B restricted share units activity as of and for the six months ended June 30, 2009 is presented below. The shares and fair values presented in the following form have been revised on a retroactive basis to give effect to the ten-for-one share split.

<u>Class B Restricted Share Units</u>	<u>Number of Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2009	2,740,000	\$1.98
Granted	—	
Vested*	—	
Forfeited	—	
Unvested at June 30, 2009	<u>2,740,000</u>	1.98
Expected to vest thereafter	<u>2,740,000</u>	1.98

Note\*: Under the vesting terms of the Class B restricted share units described above, no vesting will occur until the expiration of the 180-day lock-up agreement entered into by the holders of the restricted share units with the underwriters of Changyou's initial public offering. The 180-day lock-up period commenced on April 1, 2009, which is the date of the final prospectus for Changyou's initial public offering. Accordingly none of these Class B restricted share units will be vested until September 28, 2009.

The total share-based compensation expense recognized for these 2,740,000 Class B restricted share units during the three months ended June 30, 2009 was \$3.0 million, including \$2.4 million generated but not recognized before the completion of Changyou's initial public offering because initial vesting was conditioned on completion of the offering, as compared to zero for the corresponding period in 2008. As of June 30, 2009, unrecognized share-based compensation expense related to unvested Class B restricted share units of Changyou granted to executive officers other than Tao Wang and to key employees was \$2.4 million.

The methods Changyou used to determine the fair value as of the April 2008 grant date of these Class B restricted share units were the same as the methods used for the shares granted to Tao Wang as described above, except that the discount rate and DLOM used were different as a result of changes in circumstances between their respective grant dates.

### *Share Awards to Other Employees*

#### Share Awards Granted before Changyou's Initial Public Offering

On February 17, 2009, Changyou granted an aggregate of 45,600 Class A restricted share units to certain of its employees. These restricted share units are subject to vesting over a four-year period commencing upon the completion of the listing of Changyou's

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Class A ordinary shares in an initial public offering by Changyou. The grant date fair value of the awards was recognized in Sohu's consolidated statements of operations starting from April 2, 2009, when ADSs representing Changyou's Class A ordinary shares were first listed on the NASDAQ Global Select Market.

On March 16, 2009, the above 45,600 Class A restricted share units became 456,000 Class A restricted share units as a result of the ten-for-one share split effected on that date.

A summary of the Class A restricted share units activity as of and for the six months ended June 30, 2009 is presented below. The shares and fair value presented in the following form have been revised on a retroactive basis to give effect to the ten-for-one share split.

<u>Class A Restricted Share Units</u>	<u>Number of Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2009	—	
Granted	456,000	\$8.00
Vested	—	
Forfeited	(24,000)	8.00
Unvested at June 30, 2009	<u>432,000</u>	8.00
Expected to vest thereafter	<u>410,000</u>	8.00

The total share-based compensation expense recognized for these 456,000 Class A restricted share units for the three months ended June 30, 2009 was \$0.6 million, including \$0.2 million generated but not recognized before the completion of Changyou's initial public offering because initial vesting was conditioned on completion of the offering. As of June 30, 2009, unrecognized compensation expense related to unvested Class A restricted share units of Changyou granted to employees was \$2.7 million.

The fair value as of the February 17, 2009 grant date of these Class A restricted share units was determined based on Changyou's offering price for its initial public offering, which was \$8.00 per Class A ordinary share.

### Share Awards Granted after Changyou's Initial Public Offering

On April 20, 2009, Changyou granted an aggregate of 1,200,000 Class A restricted share units (settleable upon vesting in Class A ordinary shares) to executive officers other than Tao Wang. These Class A restricted share units are subject to vesting over a four-year period commencing on April 21, 2009. The fair value as of April 20, 2009 grant date of restricted share units was determined based on Changyou's share price on the grant date.

<u>Class A Restricted Share Units</u>	<u>Number of Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2009	—	
Granted	1,200,000	\$12.41
Vested	—	
Forfeited	—	
Unvested at June 30, 2009	<u>1,200,000</u>	12.41
Expected to vest thereafter	<u>1,200,000</u>	12.41

The total share-based compensation expense recognized for these Class A restricted share units expensed during the three months ended June 30, 2009 was \$1.5 million. As of June 30, 2009, unrecognized compensation expense related to unvested Class A restricted share units of Changyou granted to employees was \$13.4 million.

## **7. VARIABLE INTEREST ENTITIES (“VIEs”)**

FIN 46R, *Consolidation of Variable Interest Entities* (“FIN 46R”) requires a VIE to be consolidated by a company if that company is the primary beneficiary of that VIE.

To satisfy PRC laws and regulations, the Sohu Group conducts certain advertising, online game, wireless and others businesses in the PRC via its VIEs. These VIEs are directly or indirectly owned by Dr. Charles Zhang (“Dr. Zhang”), the Company's Chairman, Chief Executive Officer and a major shareholder, and certain employees of the Sohu Group. Capital for the VIEs was funded by the Sohu Group through loans provided to Dr. Zhang and those 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.

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Under contractual agreements with the Sohu Group, Dr. Zhang and other employees of the Sohu Group who are shareholders of the VIEs are required to transfer their ownership in these entities to the Sohu Group, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Sohu Group at any time to repay the loans outstanding. All voting rights of the VIEs are assigned to the Sohu Group, and the Sohu Group has the right to designate all directors and senior management personnel of the VIEs. Dr. Zhang and the other employees of the Sohu Group who are shareholders of the VIEs have pledged their shares in the VIEs as collateral for the loans. As of June 30, 2009, the aggregate amount of these loans was \$11.9 million.

The following is a summary of VIEs of the Sohu Group which are consolidated under FIN 46R:

### **For Advertising Business**

#### *Brand Advertising Business*

a) Sohu Entertainment

Beijing Sohu Entertainment Culture Media Co., Ltd. (“Sohu Entertainment”, formerly known as Beijing Hengda Yitong Internet Technology Development Co., Ltd., or “Hengda”) was incorporated in the PRC in 2002 and engages in entertainment and advertising business in the PRC on behalf of the Sohu Group. The registered capital of Sohu Entertainment is \$1.2 million. Originally, Beijing Century High Tech Investment Co., Ltd. (“High Century”) and Wei Li held 80% and 20% interests, respectively, in Sohu Entertainment. In November 2004, to further comply with PRC regulations, High Century and Wei Li transferred their interests in Sohu Entertainment to Xin Wang (Belinda Wang) and Jianjun Wang, each of whom is an employee of the Sohu Group. In July 2007, Jianjun Wang transferred all his interests in Sohu Entertainment to Ye Deng, an employee of the Sohu Group. As a result, Xin Wang (Belinda Wang) and Ye Deng hold 80% and 20% interests, respectively, in Sohu Entertainment.

b) Feng Yang Tian Lang

Beijing Feng Yang Tian Lang Advertising Co., Ltd. (“Feng Yang Tian Lang”) was incorporated in the PRC in 2005 and engages in advertising services in the PRC. The registered capital of Feng Yang Tian Lang is \$0.2 million. Beijing Sohu Internet Information Service Co., Ltd. (“Sohu Internet”) and High Century each holds a 50% interest in Feng Yang Tian Lang.

#### *Sponsored Search Business*

a) Tu Xing Tian Xia

Beijing Tu Xing Tian Xia Information Consultancy Co., Ltd. (“Tu Xing Tian Xia”) was incorporated in the PRC in 1999 and engages in mapping services in the PRC. The registered capital of Tu Xing Tian Xia is \$0.2 million. In May 2005, in connection with its acquisition of Go2Map, the Sohu Group designated High Century and Sohu Internet as its designees to purchase the outstanding registered capital of Tu Xing Tian Xia. As a result, High Century and Sohu Internet hold 56.1% and 43.9% interests, respectively, in Tu Xing Tian Xia.

b) Sogou Information

Beijing Sogou Information Service Co., Ltd. (“Sogou Information”) was incorporated in the PRC in 2005 and engages in providing Internet information services in the PRC. The registered capital of Sogou Information is \$2.5 million. Jing Zhou and Wei Li, each of whom is an employee of the Sohu Group, each holds a 50% interest in Sogou Information.

### **For Online Game Business**

a) Gamease

Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”) was incorporated in the PRC in August 2007. It holds the licenses and approvals to operate online games in the PRC. The registered capital of Gamease is \$1.3 million. Tao Wang, Changyou’s CEO, and a Changyou employee hold 60% and 40% interests, respectively, in Gamease. Gamease’s primary beneficiary is Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”), which is an indirect subsidiary of Changyou and Sohu.

### **For Wireless and Others Businesses**

a) Sohu Internet

Sohu Internet was incorporated in the PRC in 2003 and engages in Internet information, wireless and advertising services in the PRC on behalf of the Sohu Group. The original registered capital was \$0.6 million, and High Century and Jinmei He held 80% and 20% interests, respectively, in Sohu Internet. In December 2003, Sohu Entertainment made a \$0.6 million

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investment in Sohu Internet. In April 2005, Jinmei He transferred all her interests in Sohu Internet to High Century, and High Century made a \$1.2 million additional investment in Sohu Internet. As a result, the registered capital is now \$2.4 million, with High Century and Sohu Entertainment holding 75% and 25% interests, respectively.

### b) GoodFeel

Beijing GoodFeel Information Technology Co., Ltd. (“GoodFeel”) was incorporated in the PRC in 2001 and engages in value-added telecommunication services in the PRC. The registered capital of GoodFeel is \$1.2 million. In May 2004, High Century and Sohu Internet acquired 73% and 27% interests, respectively, in GoodFeel. In July 2004, High Century and Sohu Internet invested \$0.6 million and \$0.5 million, respectively, in GoodFeel so that High Century held 58.1% interests in GoodFeel with the remaining 41.9% interests held by Sohu Internet. In October 2004, to further comply with PRC regulations, High Century and Sohu Internet transferred their interests in GoodFeel to Xiufeng Deng and Jing Zhou, each of whom is an employee of the Sohu Group. In August 2007, Xiufeng Deng transferred all his interests in GoodFeel to Guofeng Yue, an employee of the Sohu Group. As a result, Guofeng Yue and Jing Zhou hold 58.1% and 41.9% interests, respectively, in GoodFeel.

### c) High Century

High Century was incorporated in the PRC in 2001 and engages in investment holding in the PRC on behalf of the Sohu Group. The registered capital of High Century is \$4.6 million. Dr. Zhang and Wei Li, an employee of the Sohu Group, hold 80% and 20% interests, respectively, in High Century.

Since Sohu.com Inc. is the primary beneficiary of the above VIEs, they have been consolidated in the Company’s financial statements pursuant to FIN 46R. As of June 30, 2009, the above VIEs have aggregate accumulated profits of approximately \$36.5 million, which have been reflected in Sohu’s consolidated financial statements.

## **8. COMMITMENTS AND CONTINGENCIES**

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, sponsored search, online game and wireless and others 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. Regulatory risks also encompass the interpretation by the tax authorities of current tax laws and regulations, including the applicability of certain preferential tax treatments. Its legal structure and scope of operations in China could be subjected to restrictions which could result in severe limits to the ability to conduct business in the PRC.

The Sohu Group’s sales, purchase and expense transactions are generally denominated in Renminbi (“RMB”) and a significant portion of the Sohu Group’s 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 affect the remittance.

The Sohu Group is a party to various litigation matters which it considers routine and incidental to its business. Management does not expect the results of any of these actions to have a material adverse effect on its business, results of operations or financial condition. In March 2008, the Sohu Group was sued by four major record companies, Sony BMG, Warner, Universal and Gold Label, which alleged that the Sohu Group provided music search links and download services that violated copyrights they owned. As of June 30, 2009, the lawsuits with these four record companies were still in process.

The Sohu Group has entered into certain sponsorship agreements, under which the Sohu Group is obliged to provide advertising services and Website construction, operation and maintenance services to third parties during the contract periods.

The Sohu Group has commitments related to future minimum content and service purchases.

## **9. NONCONTROLLING INTEREST**

In accordance with SFAS 160, from January 1, 2009, the Company renamed the minority interest to noncontrolling interest and reclassified it in its consolidated balance sheets from the mezzanine section between liabilities and equity to a separate line item in equity. The Company also expanded disclosures in the consolidated financial statements to clearly identify and distinguish the interests of Sohu from the interests of the noncontrolling owners of its subsidiaries. The Company has applied the presentation and disclosure requirements retrospectively for all periods presented for comparability.

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Noncontrolling interest in the consolidated balance sheets as of June 30, 2009 and December 31, 2008 was \$41.6 million and \$5.1 million, respectively, which including noncontrolling interest in Changyou and in 21 East Hong Kong and 21 East Beijing (collectively “21 East”).

Noncontrolling interest in the consolidated statements of operations for both the three months and the six months ended June 30, 2009 was \$8.8 million, compared with \$12,000 and \$4,000, respectively, for the corresponding periods in 2008. Noncontrolling interest in the consolidated statements of operations for the three and six months ended June 30, 2009 reflected noncontrolling interest in Changyou and 21 East. Noncontrolling interest in the consolidated statements of operations for the corresponding periods in 2008 reflected only the noncontrolling interest in 21 East.

Changyou is the Company’s majority-owned subsidiary, which completed its initial public offering on the NASDAQ Global Select Market On April 7, 2009.

21 East is an entertainment company in which the Company acquired a 70% interest on October 31, 2006.

Noncontrolling interest in the consolidated balance sheets (in thousands):

	As of	
	June 30, 2009	December 31, 2008
Changyou	\$ 41,232	\$ 4,752
21 East	337	396
Total	<u>\$ 41,569</u>	<u>\$ 5,148</u>

Noncontrolling interest in the consolidated statements of operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Changyou	\$ 8,839	\$ —	\$ 8,839	\$ —
21 East	(38)	12	(59)	4
Total	<u>\$ 8,801</u>	<u>\$ 12</u>	<u>\$ 8,780</u>	<u>\$ 4</u>

### ***Noncontrolling Interest in Changyou***

For the three months ended June 30, 2009, since Sohu continues to be Changyou’s controlling shareholder, Sohu consolidated Changyou but recognized 25.6% of the total economic interest in Changyou as noncontrolling interest in Sohu’s consolidated financial statements. See Note 1 - The Company and Basis of Presentation “Basis of Consolidation” and Note 2 - .Changyou Transactions “Sohu’s Shareholding in Changyou”.

### ***Noncontrolling Interest in the Consolidated Balance Sheets***

Noncontrolling interest attributable to Changyou in Sohu’s consolidated balance sheets as of June 30, 2009 and December 31, 2008 was \$41.2 million and \$4.8 million, respectively.

As of June 30, 2009, Sohu recognized noncontrolling interest in the consolidated balance sheets to reflect the interest in Changyou’s net assets attributable to the shareholders other than Sohu. Noncontrolling interest, appearing in shareholders’ equity in Sohu’s consolidated balance sheets as of June 30, 2009, consisted of a 25.6% interest in Changyou’s net assets attributable to the shareholders other than Sohu, and reflected the reclassification of Changyou’s share-based compensation from additional-paid-in-capital to noncontrolling interest.

As of December 31, 2008, Sohu recognized noncontrolling interest in the consolidated balance sheets consisted of the share-based compensation related to Changyou’s Class B ordinary shares granted to Tao Wang through the share-based award arrangement.

### ***Noncontrolling Interest in the Consolidated Statements of Operations***

Noncontrolling interest in Changyou attributable to shareholders other than Sohu in the consolidated statements of operations for both the three months and the six months ended June 30, 2009 was \$8.8 million, compared with zero for both of corresponding periods in 2008.



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In the second quarter of 2009, Sohu recognized noncontrolling interest in the consolidated statements of operations to reflect the 25.6% economic interest in Changyou that is attributable to the shareholders other than Sohu.

### **Noncontrolling Interest in 21 East**

Noncontrolling interest in the consolidated financial statements consisted of 30% noncontrolling interest in 21 East.

Noncontrolling interest related to 21 East in the consolidated balance sheets as of June 30, 2009 and December 31, 2008 was \$337,000 and \$396,000, respectively.

Noncontrolling interest related to 21 East in the consolidated statements of operations for the three and six months ended June 30, 2009 was negative \$38,000 and negative \$59,000, respectively, compared with \$12,000 and \$4,000 for the corresponding periods in 2008.

## **10. SUBSEQUENT EVENTS**

In July 2009, Changyou entered into a preliminary purchase agreement to acquire an office building in Beijing with approximately 15,000 square meters of space to accommodate its expanding workforce. Total estimated cost for building acquisition and renovation is expected to be approximately \$43 million.

In accordance with SFAS No. 165, "*Subsequent Events*" ("SFAS 165"), the Sohu Group has performed an evaluation of subsequent events through August 7, 2009, which is the date the financial statements were issued, with no other events or transactions needing recognition or disclosure found.

## **11. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In April 2009, the FASB issued FSP FAS 141(R)-1, "*Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*" ("FSP FAS 141(R)-1"). FSP FAS 141(R)-1 amends and clarifies SFAS 141(R) to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of FSP FAS 141(R)-1 does not have an impact on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS 165. SFAS 165 sets forth the period after the balance sheets date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheets date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheets date. SFAS 165 is effective for interim or annual periods ending after June 15, 2009. The Company has adopted the requirements of this pronouncement for the quarter ended June 30, 2009. The adoption of SFAS 165 does not have an impact on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, "*Accounting for Transfers of Financial Assets*" ("SFAS 166"). SFAS 166 is a revision to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS 166 will be effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. The Company is currently evaluating the impact on its consolidated financial statements of adopting this standard.

In June 2009, the FASB issued SFAS No. 167, "*Amendments to FASB Interpretation No. 46(R)*" ("SFAS 167"). SFAS 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities ("FIN 46(R)"). SFAS 167 amends FIN 46(R) to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. SFAS 167 will be effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. The Company is currently evaluating the impact on its consolidated financial statements of adopting this standard.

In June 2009, the FASB issued SFAS No. 168 "*The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – A Replacement of FASB Statement No. 162*" ("SFAS 162"). SFAS 168 establishes the FASB Accounting Standards Codification™ (Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. SFAS 168 and the

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Codification will be effective for financial statements issued for interim and annual periods ending after September 15, 2009. This will have an impact on the Company's financial statements since all future reference to authoritative accounting literature will be references in accordance with SFAS 168.

## 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," "Sohu" and "Sohu.com" are to Sohu.com Inc. and, except where the context requires otherwise, our subsidiaries, Sohu.com (Hong Kong) Limited ("Sohu Hong Kong"), Sohu.com Limited, Kylie Enterprises Limited, All Honest International Limited, Go2Map Inc., Sohu.com (Search) Limited, Sogou Inc., Sogou (BVI) Limited, 21 East Entertainment Limited ("21 East HK"), Changyou.com Limited ("Changyou", formerly known as TL Age Limited), Changyou.com (HK) Limited ("Changyou HK", formerly known as TL Age Hong Kong Limited), Sogou Hong Kong Limited, Sohu.com (Game) Limited ("Sohu Game"), AmazGame Entertainment (US) Inc., Beijing Sohu New Era Information Technology Co., Ltd. ("Sohu Era"), Beijing Sohu Interactive Software Co., Ltd. ("Sohu Software"), Go2Map Software (Beijing) Co., Ltd. ("Go2Map Software"), Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology"), Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media"), Beijing 21 East Culture Development Co., Ltd. ("21 East Beijing"), New 21 East Art Development (Beijing) Co., Ltd. ("New 21 East"), Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame"), and Beijing Sohu Software Technology Co., Ltd. ("New Software"), Beijing Fire Fox Digital Technology Co., Ltd. ("Beijing Fire Fox", also known as Beijing Huohu Digital Technology Co., Ltd., or "Huohu"), and our variable interest entities ("VIEs"), Beijing Century High Tech Investment Co., Ltd. ("High Century"), Beijing Sohu Entertainment Culture Media Co., Ltd. ("Sohu Entertainment", formerly known as Beijing Hengda Yitong Internet Technology Development Co., Ltd., or "Hengda"), Beijing Sohu Internet Information Service Co., Ltd. ("Sohu Internet"), Beijing GoodFeel Information Technology Co., Ltd. ("GoodFeel"), Beijing Tu Xing Tian Xia Information Consultancy Co., Ltd. ("Tu Xing Tian Xia"), Beijing Feng Yang Tian Lang Advertising Co., Ltd. ("Feng Yang Tian Lang"), Beijing Sogou Information Service Co., Ltd. ("Sogou Information"), and Beijing Gamease Age Digital Technology Co., Ltd. ("Gamease"), 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, 2008 filed with the Securities and Exchange Commission ("SEC") on February 26, 2009, 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 is a leading Internet company in China, providing hundreds of millions of Chinese Internet users with news, information, entertainment and communication. Substantially all of our operations are conducted through our indirect wholly and majority-owned China-based subsidiaries and VIEs. We operate one of the most comprehensive matrices of Chinese language Web properties and one of the most popular online games in China.

### Our Business

Our businesses mainly consist of advertising (composed of brand advertising and sponsored search), online game (conducted via Changyou), and wireless business, among which brand advertising and online game are our two core businesses.

#### Advertising Business

Our advertising business, including brand advertising services and sponsored search services, offers premier content to our users free of charge and provides advertising services to advertisers on our matrices of Chinese language Web properties consisting of:

- sohu.com, a leading mass portal and online media destination;
- 17173.com, a leading game information portal;
- focus.cn, a top real estate Website;
- chinaren.com, a leading online alumni club; and
- sogou.com, an interactive proprietary search engine.

Brand advertising services provide advertisements on our portal Websites to large companies seeking to increase their brand awareness online.

Sponsored search services provide priority placements in our search directory and pay-for-click services to customers, especially small and medium-sized enterprises.

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### *Online Game Business*

We conduct our online game business via Changyou (Changyou.com), which currently operates two massively multi-player online role-playing games (“MMORPGs”), namely Tian Long Ba Bu (“TLBB”) and Blade Online (“BO”). TLBB is Changyou’s first in-house developed MMORPG and has been one of the most popular online games in China. Changyou has four new MMORPGs in the pipeline: Duke of Mount Deer (“DMD”), which is developed in-house, is also based on a popular martial arts novel written by Louis Cha, the same author as TLBB, the Blade Hero II, which is the sequel to Blade Online, and Immortal Faith (“IF”) and Legend of Ancient World (“LAW”), which were both licensed from third parties.

In a short period of two years, Sohu’s online game business developed from nascency to become one of the top MMORPG operators in China. Its success was further endorsed by the carve-out and initial public offering of the MMORPG subsidiary Changyou (NASDAQ: CYOU) on April 2, 2009. The successful IPO provides Changyou with the platform and resources to become a leading company in the MMORPG industry, and enables Changyou to compete head to head with first tier players.

Following Changyou’s IPO, treating all of Tao Wang’s 15,000,000 Class B ordinary shares as owned by Tao Wang, Sohu holds 68.5% of the combined total Changyou’s outstanding Class A and Class B ordinary shares and controls 80.8% of the total voting power in Changyou. As Changyou’s controlling shareholder, Sohu continues to consolidate Changyou but recognizes noncontrolling interests reflecting the shares held by public shareholders and by Tao Wang (collectively, the “shareholders other than Sohu”).

Going forward, Sohu and Changyou will continue to enjoy the same synergies as before. Sohu provides Changyou with advertising resources on the Sohu portal and its verticals, especially China’s largest gaming portal 17173.com, marketing and promotion of Changyou’s games through the use of Sohu’s web domains, single user-ID system and base of more than 250 million registered users, as well as Sohu’s strong brand recognition and user platforms. Meanwhile, Changyou continues to bring users to Sohu portal.

### *Wireless and Others Businesses*

Our wireless and others businesses mainly comprise the wireless business, which offers value-added services, such as news, weather forecasts, chatting, entertainment information, ringtone and logo downloads subscribed over mobile phones.

## **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 accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. 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. We believe accounting for revenue recognition, determination of functional currencies, allowance for doubtful accounts, assessment of impairment for goodwill, intangible assets, fixed assets and other assets, determination of share-based compensation expense, income taxes and valuation allowance against deferred tax assets and noncontrolling interest, represent critical accounting policies that reflect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

### ***Revenue Recognition***

#### *Advertising Revenues*

Advertising revenues include revenues from brand advertising services and sponsored search services, after deducting agent rebates and applicable business tax. We do not enter into advertising-for-advertising barter transactions.

#### *Brand advertising*

Brand advertising contracts establish the fixed price and advertising services to be provided. Pursuant to brand advertising contracts, we provide advertisement placements on various Website channels and in different formats, including but not limited to banners, links, logos, buttons, rich media and content integration. Revenue is recognized ratably over the period the advertising is provided, which is when we consider the services to have been delivered. We treat all elements of advertising contracts as a single unit of accounting for revenue recognition purposes. Based upon our credit assessments of our customers prior to entering into contracts, we determine if collection is reasonably assured. In situations where collection is not deemed to be reasonably assured, we recognize revenue upon receipt of cash from customers, only after services have been provided and all other criteria for revenue recognition have been met.

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Sponsorship contracts may include services similar to those in our brand advertising contracts, are generally for larger dollar amounts and for a longer period of time, may allow advertisers to sponsor a particular area on our Websites, may include brand affiliation services and/or a larger volume of services, and may require some exclusivity or premiere placements. Sponsorship advertisement revenues are normally recognized on a straight-line basis over the contract period, provided we are meeting our obligations under the contract on this basis.

### Sponsored search

Pursuant to sponsored search contracts, which are normally for relatively small dollar amounts and are with small and medium-sized enterprises, sponsored search services mainly include priority placements in our search directory and pay-for-click services consisting of displaying the text-based links of our advertisers on our Websites and our Website Alliance network. We normally provide priority placements services for a fixed fee over the service period of the contracts. Revenues on priority placements are normally recognized on a straight-line basis over the contract period provided we are meeting our obligations under the contract on this basis. Pay-for-click services of displaying the text-based links to our advertisers' Websites are charged on a cost per click basis, so that an advertiser pays us only when a user clicks on the displayed link. The priority of the display of text-based links is based on the bidding price of different advertisers. Revenues from the pay-for-click services are recognized as the users click on the links.

### Online Game Revenues

Online game revenues from our MMORPG operations in China are earned by providing online services to game players pursuant to the item-based revenue model. For periods prior to our upgrading and re-launching of BO in December 2006, we operated BO under the time-based revenue model, where game players are charged based on the time they spend playing the game. Under the item-based revenue model, game players play games free of charge and are charged for purchases of virtual items.

Online game revenues are collected through sale of our prepaid game cards. We sell virtual and physical prepaid game cards to regional distributors, who in turn sub-distribute to retail outlets, including Internet cafés, various Websites, newsstands, software stores, book stores and retail stores. We typically collect payment from our distributors upon delivery of our prepaid game cards.

Under both the item-based and the time-based revenue models, proceeds received from sales of prepaid cards are initially recorded as receipts in advance. For the item-based revenue model, revenue is recognized over the estimated lives of the virtual items purchased or as the virtual items are consumed. For the time-based revenue model, revenue is recognized based upon the actual usage of time units by the game players. The revenues are recorded net of business tax, sales discounts and rebates to our distributors.

Under our item-based revenue model, game players can access our games free of charge, but may purchase consumable virtual items, including those with a pre-determined expiration time, such as three months, or perpetual items, such as certain costumes that remain bound to a game player for the life of the game. Revenues in relation to consumable virtual items are recognized as they are consumed, as our services in connection with these items have been fully rendered to our game players as of that time. Revenues in relation to perpetual virtual items are recognized over their estimated lives. We will provide continual online game services in connection with these perpetual virtual items until they are no longer used by our game players. We have considered the average period that game players typically play our games and other game player behavior patterns to arrive at our best estimates for the lives of these perpetual virtual items. We have also considered that the estimated lives of perpetual virtual items may be affected by various factors, including the acceptance and popularity of expansion packs, promotional events launched and market conditions. However, given the relatively short operating history of our games, and of our most popular game TLBB in particular, our estimate of the period that game players typically play our games may not accurately reflect the estimated lives of the perpetual virtual items. We have adopted a policy of assessing the estimated lives of perpetual virtual items on a quarterly basis. All paying users' data collected since the launch of the games are used to perform the relevant assessments. Historical behavior patterns of these paying users during the period between their first log-on date and last log-on date are used to estimate the lives of perpetual virtual items. While we believe our estimates to be reasonable based on available game player information, we may revise such estimates in the future as our games' operation periods become longer and we continue to gain more operating history and data. Any adjustments arising from changes in the estimates of the lives of the virtual items would be applied prospectively on the basis that such changes are caused by new information indicating a change in the game player behavior patterns. Any changes in our estimate of lives of perpetual virtual items may result in our revenues being recognized on a basis different from prior periods' and may cause our operating results to fluctuate.

Prepaid game cards will expire two years after the date of card production if they have never been activated. The proceeds from the expired game cards are recognized as revenue upon expiration of cards. In contrast, once the prepaid game cards are activated and credited to a player's personal game account, they will not expire as long as the personal game account remains active. We are entitled to suspend and close a player's personal game account if it has been inactive for a period of 180 consecutive days. The unused balances in an inactive player's personal game account are recognized as revenues when the account is suspended and closed. For the three months ended June 30, 2009 and 2008, we recognized revenues in connection with expired un-activated prepaid game

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cards and unused balances of activated prepaid game cards in an inactive account amounting to approximately \$33,000 and \$40,000, respectively. For the six months ended June 30, 2009 and 2008, we recognized revenues in connection with expired un-activated prepaid game cards and unused balances of activated prepaid game cards in an inactive account amounting to approximately \$64,000 and \$78,000, respectively.

We also derive online game revenues from licensing our games in other countries and territories. These licensing agreements provided for two revenue streams, namely an initial license fee and a monthly revenue-based royalty fee based on monthly revenues from the games and sales from ancillary products of the games. The initial license fee is based on both a fixed amount and additional amount receivable upon achieving certain sales targets. Since we are obligated to provide post-sales services such as technical support and provision of updates and when-and-if-available upgrades to the licensees during the license period, the initial license fee from licensing arrangement is recognized as revenue ratably over the license period. The fixed amount of the initial license fee is recognized ratably over the remaining license period from the launch of the game, and the additional amount is recognized ratably over the remaining license period from the date such additional amount is certain. The monthly revenue-based royalty fee is recognized when earned, provided that payment collection is reasonably assured.

### *Wireless and Others Revenues*

Our wireless and others revenues are mainly from our wireless business. Wireless revenues are derived from providing short messaging services (“SMS”), Ring Back Tone (“RBT”), Wireless Application Protocol (“WAP”), multimedia messaging services (“MMS”) and interactive voice response (“IVR”), mainly consisting of news, weather forecast, chatting, entertainment information, ring tones, and logo downloads and various other mobile related products provided to mobile phone users. Wireless service fees are charged on a monthly or per message/download basis. Wireless revenues and cost of revenues are recognized in the month in which the service is performed, provided no significant obligations remain. We rely on mobile network operators in China to bill mobile phone users for wireless service fees. In order to meet ownership requirements under PRC law which restrict or prohibit wholly foreign-owned enterprises from providing Internet information and value-added telecommunication services such as wireless, we rely on Sohu Internet and Goodfeel to contract with the mobile network operators. Generally, (i) within 15 to 120 days after the end of each month, Sohu Internet or Goodfeel receives statements from each of the operators confirming the amount of wireless service charges billed to that operator’s mobile phone users and (ii) within 30 to 180 days after delivering monthly statements, each operator remits the wireless service fees, net of its service fees, for the month to Sohu Internet or Goodfeel. In order to recognize revenue and be paid for services provided, we rely on billing confirmations from the mobile network operators as to the actual amount of services they have billed to their mobile customers. We are unable to collect certain wireless services fees from an operator in certain circumstances due to technical issues with the operator’s network. This is referred to as the “failure rate”, which can vary from operator to operator. Recently, the time lag in receiving monthly statements from one of the mobile network operators has increased. At the end of each reporting period, where an operator has not provided Sohu Internet or Goodfeel with the monthly statements for any month confirming the amount of wireless service charges billed to that operator’s mobile phone users for the month, we, using information generated from our own internal system and historical data, make estimates of the failure rate and collectable wireless service fees and accrue revenue accordingly. The quarterly historical differences in our estimated revenue which was recorded in the financial statements compared to the actual revenue have ranged from an underestimation of \$1,419,000 (gross margin underestimate of \$654,000) to an overestimation of \$340,000 (gross margin overestimate of \$171,000) since 2002 when wireless revenues began representing a significant portion of our total revenues. We believe we have the ability to make a reasonable estimate. However, differences between the actual failure rate and bad debt rate per an operator’s statement and our internal estimates could result in material differences in the amount and timing of our revenue and cost of non-advertising revenue for any period. For the three months ended June 30, 2009, 56% of our estimated wireless revenues were confirmed by the monthly statements received from the mobile network operators.

Our management must determine whether to record our wireless revenues using the gross or net method of reporting. Determining whether revenue should be reported gross or net is based on an assessment of various factors, the primary factor is whether we are acting as the principal in offering services to the customer or whether we are acting as an agent in the transaction. To the extent we are acting as a principal in a transaction, we report as revenue the payments received on a gross basis, and report as costs of revenue the amounts attributable to services provided by mobile network operators and other vendors. To the extent we are acting as an agent in a transaction, we report on a net basis reporting as revenue the payments received less commission and other payments to third parties. Whether we are serving as principal or agent in a transaction is judgmental in nature and is determined by evaluating terms of the arrangement.

Based on our assessment, the majority of our wireless revenues are recorded on a gross basis. We have primary responsibility for fulfillment and acceptability of the wireless services. The content and nature of the wireless services are designed and developed by us (either independently or with third parties) and are originate from our Websites, our links located on third parties’ Websites, or one of our dedicated phone numbers. The mobile network operators that we contract with to deliver these services to the end customers are not involved in the design or development of the services that are provided by us. The end customers purchase the wireless content, community access or value-added services, such as news, weather forecast, chatting, entertainment information, ring tones, and logo downloads and various other mobile related products provided to mobile phone users. The end customers receive identical services from us regardless of which mobile network operator is used to deliver the message. In addition, we provide customer services to the end customers directly and we could be requested by the mobile network operators to assume the credit risk if the

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operators are not able to collect fees from the end customers. We have determined that in addition to the indicators of gross reporting, there are also certain indicators of net reporting, including the fact that the mobile network operators set maximum prices that we can charge and that the mobile network operators also have the right to set requirements and procedures associated with using their platform. However, we have determined that the gross revenue reporting indicators are stronger, because we are the primary obligor, who adds value to the products. We also have inventory risk related to content and products, and have reasonable pricing latitude.

To the extent revenues are recorded on a gross basis, any commissions or other payments to third parties are recorded as costs or expenses so that the net amount (gross revenues, less costs and expenses) flows through to operating income. Accordingly, the impact on operating income is the same whether we record the revenue on a gross or on a net basis.

### ***Functional Currency***

The functional currency of our subsidiaries and VIEs in China is the RMB and the functional currency of our subsidiaries outside China is the US Dollar. 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 it primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements. Assets and liabilities of the China-based subsidiaries and VIEs are translated into US Dollar, our reporting currency, at the exchange rate in effect at the balance sheets date. Foreign currency translation adjustments are not included in determining net income for the period but are accumulated in a separate component of equity in the consolidated balance sheets. The accumulated foreign currency translation adjustment as of June 30, 2009 and December 31, 2008 was a gain of \$21.4 million and \$21.3 million, respectively.

### ***Allowance for Doubtful Accounts Receivable***

Our management must make estimates as to the collection of our accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Our gross accounts receivable balance was \$54.5 million, with an allowance for doubtful accounts of \$1.2 million as of June 30, 2009. If the financial condition of our customers or mobile network operators were to deteriorate, resulting in their inability to make payments, or the mobile network operators requested that we assume additional bad debts as a result of the operators' inability to collect fees from end customers, additional allowance might be required.

### ***Impairment on Long-Lived Assets***

Our long-lived assets include goodwill, intangible assets, fixed assets and other assets. We test goodwill for impairment at the reporting unit level (operating segment) on an annual basis, and between annual tests when an event occurs or circumstances change that could more likely than not reduce the fair value of goodwill below its carrying value. Application of a goodwill impairment test requires 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. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. Any impairment losses recorded in the future could have a material adverse impact on our financial condition and results of operations. As of June 30, 2009, we were not aware of any event or change of circumstances occurred that would result in material impairment losses in goodwill.

In respect of our intangible assets, which mainly comprise domain names, trademarks, customer lists and computer software purchased from unrelated third parties, we amortize the costs over their expected future economic lives. Fixed assets comprise office buildings, investment properties, computer equipment and hardware, office furniture, vehicles and leasehold improvements, and are depreciated over the estimated useful lives of the assets on a straight-line basis. Other assets mainly include prepaid content fees and rental deposits. We amortize the content fees over the terms of the contracts. Management's judgment is required in the assessment of the economic lives of intangible assets and useful lives of the fixed assets and other assets. Based on the existence of one or more indicators of impairment, we measure any impairment of intangible assets, fixed assets and other assets based on a projected discounted cash flow method using a discount rate determined by our management which is commensurate with the risk inherent in our business model. An impairment charge would be recorded if we determined that the carrying value of intangible assets, fixed assets or other assets may not be recoverable. Our estimates of future cash flows require significant judgment based on our historical results and anticipated results and are subject to many factors. As of June 30, 2009, we were not aware of the occurrence of any event or change of circumstances that would result in material impairment losses in our intangible assets, fixed assets and other assets.



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### ***Share-Based Compensation***

Our financial statements reflect the adoption as of January 1, 2006, of SFAS 123(R), which requires all share-based payments to employees and directors, including grants of employee share options and restricted share units, to be recognized in the financial statements based on their fair values at grant date. The valuation provisions of SFAS 123(R) apply to new share-based awards, to share-based awards granted to employees and directors before the adoption of SFAS 123(R) whose related requisite services had not yet been provided, and to share-based awards which were subsequently modified or cancelled. In March 2005, the United States Securities and Exchange Commission (“SEC”), issued Staff Accounting Bulletin 107, (“SAB 107”), regarding the SEC’s interpretation of SFAS 123(R) and the valuation of share-based payments for public companies. We applied the provisions of SAB 107 in our adoption of SFAS 123(R).

Under SFAS 123(R), we applied the Black-Scholes valuation model in determining the fair value of options granted to employees and directors. Under the transition provisions of SFAS 123(R), we recognized compensation expense on options granted prior to the adoption of SFAS 123(R) on an accelerated basis over the requisite service period, which is consistent with the methods we used when preparing pro forma information under SFAS 123. Restricted share units are measured based on the fair market value of the underlying shares on the grant dates. We recognized the relevant share-based compensation expense on an accelerated basis over the requisite service period.

Under SFAS 123(R), the number of share-based awards for which the service is not expected to be rendered for the requisite period should be estimated, and the related compensation expense not recorded for that number of awards. For pro forma disclosure under SFAS 123, we accounted for the effect of forfeitures only as the forfeitures occurred. We applied the modified prospective transition method, and therefore have not restated prior years’ results.

Our assumptions were based on historical experience, with consideration to developing expectations about the future. The assumptions used in calculating the fair value of share-based awards and related share-based compensation expense represent management’s best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change or different assumptions are used, our share-based compensation expense could be materially different for any period.

### ***Income Taxes and Valuation Allowance against Deferred Tax Assets***

We estimate income tax expense in each of the jurisdictions in which we operate for each period presented, including estimating current tax exposure as well as assessing realizable deferred tax assets and deferred tax liabilities.

As of June 30, 2009, our deferred tax assets are related to net operating losses of the holding company that would be subject to income taxes in the United States, and net operating losses and temporary differences between accounting and tax bases for our China-based subsidiaries and VIEs. As substantially all of our income is earned through subsidiaries outside the United States, and we do not intend to repatriate this income to the United States where it would be taxable, it is more likely than not that deferred tax assets resulting from the net operating losses of the holding company will not be realized. We have recorded a valuation allowance against our gross deferred tax assets in order to reduce our deferred tax assets to the amount that is more likely than not to be realized. 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.

### ***Noncontrolling Interest***

As Changyou completed its initial public offering on the NASDAQ Global Select Market on April 7, 2009, Sohu’s economic interests in Changyou decreased from 100% to approximately 74.4% and Sohu’s voting power decreased from 100% to 80.8% subsequent to the offering.

In accordance with SFAS 160, after Changyou’s initial public offering, as long as Sohu has a controlling interest in Changyou, Sohu will continue to consolidate Changyou, but will recognize noncontrolling interest in Sohu’s consolidated financial statements to reflect the economic interest in Changyou attributable to Changyou’s shareholders other than Sohu.

## **RESULTS OF OPERATIONS**

### **FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008**

#### **REVENUES**

Total revenues were \$127.1 million and \$242.8 million for the three and six months ended June 30, 2009, respectively, as compared to \$102.0 million and \$186.8 million for the corresponding periods in 2008.



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### **Advertising Revenues**

Advertising revenues are derived from brand advertising and sponsored search.

Advertising revenues were \$45.4 million and \$86.0 million, or 36% and 35% of total revenues, for the three and six months ended June 30, 2009, as compared to \$43.4 million and \$78.1 million, or 43% and 42% of total revenues, for the corresponding periods in 2008. For the three and six months ended June 30, 2009, advertising revenues consisted of revenues from brand advertising of \$43.6 million and \$82.7 million, and revenues from sponsored search of \$1.8 million and \$3.3 million. For the three and six months ended June 30, 2008, advertising revenues consisted of revenues from brand advertising of \$41.7 million and \$74.8 million, and revenues from sponsored search of \$1.7 million and \$3.3 million.

#### *Brand Advertising*

Brand advertising revenues increased by \$1.9 million to \$43.6 million for the three months ended June 30, 2009 and increased by \$7.9 million to \$82.7 million for the six months ended June 30, 2009 as compared to the corresponding periods in 2008. The increase of \$1.9 million for the three months ended June 30, 2009 from the corresponding period in 2008 consisted of: (i) a \$15.3 million increase from advertisers who advertised with us during the three months ended June 30, 2009 but did not advertise on our Website during the three months ended June 30, 2008; (ii) a \$4.7 million decrease in revenues from advertisers who advertised with us in the three months ended June 30, 2008 and continued to do so in the three months ended June 30, 2009; and (iii) a \$8.7 million decrease in revenues as some of advertisers who advertised with us during the three months ended June 30, 2008 did not advertise on our Website during the three months ended June 30, 2009. The increase of \$7.9 million for the six months ended June 30, 2009 from the corresponding period in 2008 consisted of: (i) a \$19.9 million increase from advertisers who advertised with us during the six months ended June 30, 2009 but did not advertise on our Website during the six months ended June 30, 2008; (ii) a \$2.1 million increase in revenues from advertisers who advertised with us in the six months ended June 30, 2008 and continued to do so in the six months ended June 30, 2009; and (iii) a \$14.1 million decrease in revenues as some of advertisers who advertised with us during the six months ended June 30, 2008 did not advertise on our Website channels during the six months ended June 30, 2009. As of June 30, 2009 and 2008, we had \$1.3 million and \$2.1 million, respectively, of receipts in advance from advertisers. We do not enter into advertising-for-advertising barter transactions.

We expect brand advertising revenues to increase in the third quarter of 2009 as compared to the second quarter of 2009.

#### *Sponsored Search*

Sponsored search revenues increased by \$0.1 million to \$1.8 million for the three months ended June 30, 2009 as compared to the corresponding period in 2008. Sponsored search revenues were \$3.3 million for both the six months ended June 30, 2009 and the six months ended June 30, 2008. Sponsored search services primarily include priority placements in our search directory and pay-for-click services of displaying the text-based links of our advertisers on our Websites and our Website Alliance network. Revenues from pay-for-click services accounted for approximately 71% and 66% of the total sponsored search revenues for the three and six month periods ended June 30, 2009, as compared to 45% and 41% in the corresponding periods in 2008.

### **Online Game Revenues**

For the three months ended June 30, 2009, online game revenues increased by \$18.7 million to \$66.6 million as compared to \$47.9 million for the three months ended June 30, 2008. For the six months ended June 30, 2009, online game revenues increased by \$39.3 million to \$128.2 million as compared to \$88.9 million for the six months ended June 30, 2008.

The following table sets forth the revenues generated from our game operations in mainland China and overseas licensing (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Online game revenues:				
Game operations revenues	\$64,936	\$45,730	\$124,282	\$86,304
Overseas licensing revenues	1,660	2,166	3,921	2,547
Total online game revenues	<u>\$66,596</u>	<u>\$47,896</u>	<u>\$128,203</u>	<u>\$88,851</u>

#### *Game Operations Revenues*

Our current two MMORPGs, TLBB and BO, are free to play and generate revenues using the item-based revenue model through the sale of virtual items that enhance the game-playing experience. TLBB, launched on May 9, 2007, is our first in-house developed online game. BO, launched in October 2004, was licensed from a third party game development studio.

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The following table sets forth game operations revenues and related aggregate operating data:

	Three Months Ended		Six Months Ended	
	June 30,	2008	2009	2008
Game operations revenues (\$'000)	\$64,936	\$45,730	\$124,282	\$86,304
Aggregate quarterly APA (in thousands)*	2,388	1,807	N/A	N/A
Aggregate quarterly ARPU (in RMB)**	186	176	N/A	N/A

Notes:

- \* Aggregate quarterly APA, or aggregate quarterly active paying accounts, is the aggregate number of accounts for our two MMORPGs from which game points are utilized at least once during the quarter; our definition of APA may not be comparable to similarly titled measures presented by other online game companies.
- \*\* Aggregate quarterly ARPU, or aggregate quarterly revenue per active paying accounts, is our online game net revenues during the quarter divided by the aggregate quarterly active paying accounts during the quarter for our two MMORPGs; our definition of ARPU may not be comparable to similarly titled measures presented by other online game companies.

As of June 30, 2009, the aggregate registered accounts for our two MMORPGs had reached 69.1 million, and aggregate peak concurrent users for our two MMORPGs were approximately 950,000 for the three months ended June 30, 2009.

These increases in game operations revenues were primarily due to continual growth in revenue from TLBB in China.

### *Overseas Licensing Revenues*

We started licensing our game TLBB to operators outside of the PRC in 2007. We began generating overseas licensing revenues from TLBB in Vietnam in August 2007, in Taiwan and Hong Kong in April 2008 and in Malaysia and Singapore in April 2009. For the three months ended June 30, 2009 and 2008, our overseas licensing revenues were \$1.7 million and \$2.2 million, respectively. The decreases were largely the result of greater competition in mature overseas markets. For the six months ended June 30, 2009 and 2008, our overseas licensing revenues were \$3.9 million and \$2.5 million, respectively.

### *Revenue Collection*

Substantially all of our online game revenues are collected through sales of our prepaid game cards, which we sell in both virtual and physical forms, to third party distributors and retailers, and through online sales of game points directly to game players. We account for proceeds from sales of prepaid game cards from distributors or retailers as receipts in advance from customers in our consolidated balance sheets, prior to activation or charge of the prepaid cards. Once a prepaid game card is activated or charged to a specific game account, we account for the related amounts as deferred revenues. We account for proceeds from online sales of game points directly to game players as deferred revenues.

As of June 30, 2009, we had receipts in advance and deferred revenues of \$22.6 million in China and overseas, as compared with \$17.3 million as of June 30, 2008.

We expect online game revenue to increase in the third quarter of 2009 as compared to the second quarter of 2009.

### *Wireless and Others Revenues*

#### *Wireless*

Our wireless revenues include SMS, RBT, WAP, MMS and IVR services. Because of restrictions on foreign companies operating in the PRC telecommunications industry, we have used our VIEs to contract on our behalf with PRC mobile network operators who provide the gateway for sending messages and collect our fees from customers. Our VIEs collect the fees from the operators and we then transfer the fees to our subsidiaries on a periodic basis. Our wireless services include news, weather forecast, chatting, entertainment information, music, ring tone, and logo downloads and various other related products provided to mobile phone users. Most of our services are charged on a monthly or per message/download basis. For the six months ended June 30, 2009, we normally charged monthly fees ranging from \$0.073 to \$3.659 and per message/download fee ranging from approximately \$0.007 to \$0.585.

For the three months ended June 30, 2009, our wireless revenues increased by \$5.8 million to \$15.0 million as compared to \$9.2 million for the three months ended June 30, 2008, primarily due to an increase of \$2.6 million in SMS revenues, an increase of \$1.6 million in RBT and IVR revenues, and a \$2.1 million increase due to reduced revenue in the second quarter of 2008 resulting from business tax provision, offset by a decrease of \$0.2 million in MMS and \$0.3 million in WAP revenues. For the six months ended

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June 30, 2009, our wireless revenues increased by \$10.5 million to \$28.3 million as compared to \$17.8 million for the six months ended June 30, 2008, primarily due to an increase of \$5.9 million in SMS revenues, an increase of \$3.7 million in RBT and IVR revenues, and a \$2.1 million increase due to reduced revenue in the second quarter of 2008 resulting from business tax provision, offset by a decrease of \$0.6 million in MMS and \$0.6 million in WAP revenues. The increase in SMS and IVR revenue was primarily due to successful product distribution programs, and the increase in RBT revenue was because of our continued market development efforts and product diversification.

We expect wireless revenues to steadily increase in the third quarter of 2009 as compared to the second quarter of 2009.

### *Others*

Other services mainly consist of sales of software to third parties, provision of applications service provider (“ASP”) services, office space rental income and construction of websites. For the three months ended June 30, 2009 and 2008, revenues for other services were \$148,000 and \$1.5 million, respectively. For the six months ended June 30, 2009 and 2008, revenues for other services were \$265,000 million and \$2.0 million, respectively.

## **COSTS AND EXPENSES**

### **Cost of Revenues**

Total cost of revenues was \$28.8 million and \$56.4 million for the three and six months ended June 30, 2009, respectively, as compared to \$24.9 million and \$45.2 million for the corresponding periods in 2008.

### *Cost of Advertising Revenues*

Total cost of advertising revenues was \$16.3 million and \$32.4 million for the three and six months ended June 30, 2009, respectively, as compared to \$15.5 million and \$28.3 million for the corresponding periods in 2008.

### *Brand Advertising*

Cost of brand advertising revenues includes personnel costs and personnel overhead relating to our editorial center, content purchases, payments to our business partners, relevant depreciation of servers and computer equipment and bandwidth leasing costs. For the three months ended June 30, 2009, cost of brand advertising revenues was \$14.1 million, as compared to \$13.9 million for the corresponding period in 2008. For the six months ended June 30, 2009, cost of brand advertising revenues was \$27.8 million, as compared to \$25.2 million for the corresponding period in 2008. The increase of \$2.6 million for the six months ended June 30, 2009 from the corresponding period in 2008 consisted of a \$2.4 million increase in personnel expense and a \$1.4 million increase in bandwidth leasing costs due to increased traffic on our Websites, offset by a \$0.9 million decrease in cost of sales and a \$0.3 million decrease in other costs. Our brand advertising gross margins for the three and six months ended June 30, 2009 were 68% and 66%, as compared to 67% and 66% for the corresponding periods in 2008.

### *Sponsored Search*

Cost of sponsored search revenues primarily consists of relevant depreciation of servers and computer equipment, payments to our Website Alliance, bandwidth leasing costs, personnel cost and data collection cost. Cost of sponsored search revenues was \$2.2 million and \$4.6 million for the three and six months ended June 30, 2009 as compared to \$1.6 million and \$3.1 million for the three and six months ended June 30, 2008. The increase in cost of sponsored search was primarily due to higher bandwidth leasing costs to support increased Website traffic.

### *Cost of Online Game Revenues*

Cost of online game revenues primarily consists of personnel costs relating to the operation of the games, PRC business tax and VAT that AmazGame pays on the revenues that it derives from its contractual arrangements with Gamease, bandwidth leasing costs, depreciation of servers and computer equipment and revenue-based royalty payments to game developers of licensed games. Cost of online game revenues was \$3.9 million and \$7.4 million for the three and six months ended June 30, 2009 as compared to \$3.5 million and \$6.7 million for the three and six months ended June 30, 2008. Our online game gross margin for the three and six months ended June 30, 2009 were both 94%, as compared to 93% and 92% for the corresponding periods in 2008.

## **Cost of Wireless and Others Revenues**

### *Wireless*

Cost of wireless revenues mainly consists of collection and wireless transmission charges paid to mobile network operators, expenses related to complaints based on allegations of breaches of certain provisions of our agreements with mobile network operators, fees or royalties paid to third party content providers for promotion services and content associated with our wireless services, payments to third party wireless service alliances, relevant depreciation of servers and computer equipment and bandwidth leasing costs. Cost of wireless revenues increased by \$2.8 million to \$8.3 million for the three months ended June 30, 2009, and increased by \$6.5 million to \$15.9 million for the six months ended June 30, 2009, as compared to the corresponding periods in 2008. The increase in cost of wireless revenues for the three months ended June 30, 2009 as compared to the corresponding period in 2008 resulted from an increase of \$2.1 million in payments to third party wireless service alliances and content providers, an increase of \$0.5 million in collection charges and transmission charges paid to mobile network operators and an increase of \$0.2 million in other costs. The increase in cost of wireless revenues for the six months ended June 30, 2009 as compared to the corresponding period in 2008 resulted from an increase of \$5.0 million in payments to third party wireless service alliances and content providers, an increase of \$1.3 million in collection charges and transmission charges paid to mobile network operators, and an increase of \$0.2 million in other costs. The collection and transmission charges vary between mobile network operators and include a gateway fee of \$0.003 to \$0.029 per message, depending on the volume of the monthly total wireless messages, and a collection fee of 15% to 70% of total fees collected by mobile network operators from mobile phone users (with the residual paid to us) in the second quarter of 2009. Our wireless gross margins were 45% and 44% for the three and six months ended June 30, 2009, as compared to 40% and 47% for the corresponding periods in 2008.

### *Others*

Cost of revenues for other services was \$233,000 and \$719,000 for the three and six months ended June 30, 2009, respectively, as compared to \$378,000 and \$759,000 for the corresponding three and six month periods in 2008. Cost of revenues for other services consists mainly of personnel and other expenses in connection with our sales of software to third parties and provision of ASP services.

## **Product Development Expenses**

Product development expenses increased by \$3.8 million to \$14.6 million for the three months ended June 30, 2009, and increased by \$5.7 million to \$28.0 million for the six months ended June 30, 2009, as compared to the corresponding three and six month periods in 2008. The increase for the three months ended June 30, 2009 from the corresponding period in 2008 primarily consisted of a \$2.1 million increase in share-based compensation expense under SFAS123(R), a \$0.6 million increase in license fee, a \$0.5 million increase in personnel expense resulting from an increase in headcount, salaries and bonuses, and a \$0.6 million increase in other expenses. The increase for the six months ended June 30, 2009 from the corresponding period in 2008 primarily consisted of a \$3.4 million increase in personnel expenses resulting from an increase in headcount, salaries and bonuses, a \$1.1 million increase in share-based compensation expense under SFAS 123(R), a \$0.6 million increase in license fee, and a \$0.6 million increase in other expenses.

## **Sales and Marketing Expenses**

Sales and marketing expenses increased by \$4.4 million to \$25.8 million for the three months ended June 30, 2009, and increased by \$5.1 million to \$42.6 million for the six months ended June 30, 2009, as compared to the corresponding three and six month periods in 2008. The increase for the three months ended June 30, 2009 from the corresponding period in 2008 primarily consisted of a \$4.0 million increase in advertising and promotion expense under our market aggregation strategy and a \$0.4 million increase in other expenses. The increase for the six months ended June 30, 2009 from the corresponding period in 2008 primarily consisted of a \$4.1 million increase in advertising and promotion expense under our market aggregation strategy, a \$0.8 million increase personnel expense resulting from an increase in headcount and salaries (including sales commissions), and a \$0.2 million increase in other expenses.

## **General and Administrative Expenses**

General and administrative expenses increased by \$4.4 million to \$9.2 million for the three months ended June 30, 2009, and increased by \$6.1 million to \$17.1 million for the six months ended June 30, 2009, as compared to the corresponding three and six month periods in 2008. The increase for the three months ended June 30, 2009 from the corresponding period in 2008 was primarily due to a \$2.4 million increase in share-based compensation expense under SFAS 123(R), a \$1.1 million increase in personnel expense, a \$0.5 million increase in professional fees and a \$0.4 million increase in other expenses. The increase for the six months ended June 30, 2009 from the corresponding period in 2008 was primarily due to a \$4.4 million increase in personnel expense, a \$2.2 million increase in share-based compensation expense under SFAS 123(R) and a \$0.5 million increase in other expenses, offset by a \$1.0 million decrease in loss from disposal of fixed assets and other assets.

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### **Amortization of Intangible Assets**

Amortization of intangible assets, mainly related to the acquisitions of the 17173.com, Focus.cn, Goodfeel and Go2Map was \$128,000 and \$202,000 for the three and six months ended June 30, 2009, respectively, as compared to \$199,000 and \$395,000 for the three and six months ended June 30, 2008.

### **Share-based Compensation Expense**

Share-based compensation expense included in costs and expenses includes (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cost of revenues	\$ 355	\$ 308	\$ 602	\$ 630
Product development expenses	3,299	1,228	4,573	3,491
Sales and marketing expenses	214	228	499	508
General and administrative expenses	2,746	394	3,227	1,039
	<u>\$ 6,614</u>	<u>\$ 2,158</u>	<u>\$8,901</u>	<u>\$5,668</u>

Share-based compensation expense in our financial statements included expenses related to share-based awards of Sohu.com Inc. and Changyou.

#### *1) Sohu.com Inc. Share Awards*

The total share-based compensation expense related to Sohu.com Inc. share awards recognized in the consolidated statements of operations during the three months ended June 30, 2009 and 2008 was \$1.0 million and \$1.4 million, respectively. The total share-based compensation expense related to Sohu.com Inc. share awards recognized in the consolidated statements of operations during the six months ended June 30, 2009 and 2008 was \$2.6 million and \$3.2 million, respectively. As of June 30, 2009, there was \$3.0 million of unrecognized compensation expense related to unvested options and restricted share units.

#### *2) Changyou Share Awards*

The total share-based compensation expense related to Changyou share awards recognized in the consolidated statements of operations during the three months ended June 30, 2009 and 2008 was \$5.6 million and \$0.8 million, respectively. The total share-based compensation expense related to Changyou share awards recognized in the consolidated statements of operations during the six months ended June 30, 2009 and 2008 was \$6.3 million and \$2.5 million, respectively. As of June 30, 2009, there was \$2.8 million of unrecognized compensation expense related to unvested Class B restricted ordinary shares granted to Tao Wang and \$18.5 million related to unvested Class A and Class B restricted share units granted to Changyou's executive officers other than Tao Wang and to its key employees.

### **Operating Profit**

As a result of the foregoing, our operating profit increased by \$8.7 million to \$48.5 million for the three months ended June 30, 2009, and increased by \$28.2 million to \$98.6 million for the six months ended June 30, 2009, as compared to the corresponding three and six month periods in 2008. The operating profit for the three and six months ended June 30, 2009 included \$6.6 million and \$8.9 million, respectively, of share-based compensation expense under SFAS 123(R). The operating profit for the three and six months ended June 30, 2008 included \$2.2 million and \$5.7 million, respectively, of share-based compensation expense under SFAS 123(R).

### **Other Income (Expense)**

For the three and six months ended June 30, 2009, other income of \$62,000 and \$63,000 mainly consisted of several miscellaneous items. For the three and six months ended June 30, 2008, other expense of \$575,000 and \$532,000 mainly consisted of donations made for the Sichuan earthquake.

### **Interest Income and Exchange Difference**

For the three months ended June 30, 2009, interest income and exchange difference was \$1.3 million and was generated solely from interest income. For the three months ended June 30, 2008, interest income and exchange difference was \$1.5 million, comprising interest income of \$1.0 million and exchange gain of \$0.5 million. For the six months ended June 30, 2009, interest income and exchange difference was \$2.4 million, comprising interest income of \$2.3 million and exchange gain of \$0.1 million. For the six months ended June 30, 2008, interest income and exchange difference was \$1.6 million, comprising interest income of \$1.7 million and exchange loss of \$0.1 million.

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### **Income Tax Expense**

For the three months ended June 30, 2009, income tax expense was \$8.0 million, as compared with \$0.6 million for the corresponding period in 2008. For the six months ended June 30, 2009, income tax expense was \$14.6 million, as compared to \$9.8 million for the corresponding periods in 2008. Besides the impact of \$1.2 million income tax expense recognized in the second quarter of 2009 as a result of the change in the tax bureau's position for a non-deductible item, the increase resulted primarily from the applicable income tax rate changes from 0% to the range of 7.5% to 15% for our major operating subsidiaries and VIEs in PRC in 2009, as these entities' tax exemption periods expired at the end of 2008.

### **Income from Continuing Operations**

For the three and six months ended June 30, 2009, net income from continuing operations was \$41.9 million and \$86.5 million, as compared to \$40.2 million and \$61.8 million for the three and six months ended June 30, 2008.

### **Gain (Loss) from Discontinued E-commerce Operations**

Gain from discontinued e-commerce operations for both the three months and the six months ended June 30, 2009 was \$446,000. This increment mainly resulted from the write-off of some long-aged payables which were unlikely to be required to be settled in the future. For the three and six months ended June 30, 2008, loss from discontinued e-commerce operations was zero and \$1,000.

### **Net Income**

As a result of the foregoing, we had net income of \$42.3 million and \$86.9 million for the three and six months ended June 30, 2009, as compared to net income of \$40.2 million and \$61.8 million for the three and six months ended June 30, 2008. Net income for the three and six months ended June 30, 2009 included \$6.6 million and \$8.9 million of share-based compensation expense under SFAS 123(R), as compared to \$2.2 million and \$5.7 million of share-based compensation expense for the three and six months ended June 30, 2008.

### **Net Income Attributable to Noncontrolling Interest**

Net income attributable to noncontrolling interest was \$8.8 million for both the three months and the six months ended June 30, 2009, as compared to \$12,000 and \$4,000 for the corresponding periods ended June 30, 2008. The increase for the three and six months ended June 30, 2009 from the corresponding periods ended June 30, 2008 was due to \$8.8 million noncontrolling interest recognized for Changyou after its initial public offering in the second quarter of 2009.

## **LIQUIDITY AND CAPITAL RESOURCES**

We have financed our operations primarily through cash flows from operations. As of June 30, 2009, we had cash and cash equivalents of approximately \$546.7 million, compared to \$226.0 million as of June 30, 2008.

In October 2008, the board of directors approved a stock repurchase program of up to \$150 million of Sohu's outstanding shares of common stock until the end of 2009. Through the end of June 30, 2009, we repurchased 501,686 shares in the open market, at an average price of \$39.86 for total consideration of \$20 million. We expect to continue to execute this program during the year ending December 31, 2009.

In summary, our cash flows were (in thousands):

	Six Months Ended June 30,	
	2009	2008
Net cash provided by operating activities	\$ 103,364	\$ 98,865
Net cash used in investing activities	(2,420)	(16,401)
Net cash provided by financing activities	131,501	14,764
Effect of exchange rate change on cash and cash equivalents	(124)	6,049
Net increase in cash and cash equivalents	232,321	103,277
Cash and cash equivalents at beginning of period	314,425	122,706
Cash and cash equivalents at end of period	<u>\$ 546,746</u>	<u>\$ 225,983</u>

For the six months ended June 30, 2009, net cash provided by operating activities was \$103.4 million. This was primarily attributable to our net income of \$86.9 million, adjusted by non-cash items of share-based compensation expense of \$8.9 million, depreciation and amortization of \$8.7 million, other miscellaneous non-cash expense of \$1.5 million, and offset by a \$2.6 million increase in

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working capital. This \$2.6 million was the net impact of \$18.9 million income tax refund received in January 2009 offset by other working capital increase of \$21.5 million. For the six months ended June 30, 2008, net cash provided by operating activities was \$98.9 million. This was primarily attributable to our net income of \$61.8 million, adjusted by non-cash items of depreciation and amortization of \$7.7 million, share-based compensation expense of \$5.7 million, and a \$25.1 million decrease in working capital, offset by other items of \$1.4 million.

For the six months ended June 30, 2009, net cash used in investing activities was \$2.4 million, and was primarily attributable to a \$5.1 million used in acquiring fixed assets and other assets, offset by a \$2.7 million decrease in restricted cash. For the six months ended June 30, 2008, net cash used in investing activities was \$16.4 million, and was primarily attributable to \$17.9 million used in acquiring fixed assets and other assets, offset by a \$1.5 million decrease in restricted cash.

For the six months ended June 30, 2009, \$131.5 million net cash provided by financing activities was primarily attributable to \$128.3 million of proceeds generated from Changyou's initial public offering after deducting underwriting discounts and commissions but before deducting offering expenses, and \$3.0 million from issuance of common stock upon the exercise of options and restricted share units granted under our stock incentive plan and \$0.8 million from other financing activities, offset by reversal of excess tax benefits of \$0.6 million from share-based payment arrangements. For the six months ended June 30, 2008, \$14.8 million net cash provided by financing activities was primarily attributable to the issuance of common stock upon the exercise of options and restricted share units granted under our stock incentive plan and cash contributions received from noncontrolling shareholders.

As of June 30, 2009, we had cash and cash equivalents of \$546.7 million as compared to \$314.4 million as of December 31, 2008.

We believe that current cash and cash equivalents will be sufficient to meet anticipated working capital needs (net cash used in operating activities), commitments and capital expenditures for at least the next twelve months. We may, however, require additional cash resources due to changed business conditions or other future developments.

### **OFF-BALANCE SHEETS COMMITMENTS AND ARRANGEMENTS**

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or product development services with us.

### **IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In April 2009, the FASB issued FSP FAS 141(R)-1, "*Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*" ("FSP FAS 141(R)-1"). FSP FAS 141(R)-1 amends and clarifies SFAS 141(R) to address application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 is effective for assets and liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of FSP FAS 141(R)-1 does not have an impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, "*Subsequent Events*" ("SFAS 165"). SFAS 165 sets forth the period after the balance sheets date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheets date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheets date. SFAS 165 is effective for interim or annual periods ending after June 15, 2009. We have adopted the requirements of this pronouncement for the quarter ended June 30, 2009. The adoption of SFAS 165 does not have an impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, "*Accounting for Transfers of Financial Assets*" ("SFAS 166"). SFAS 166 is a revision to SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS 166 will be effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. We are currently evaluating the impact on our consolidated financial statements of adopting this standard.

In June 2009, the FASB issued SFAS No. 167, "*Amendments to FASB Interpretation No. 46(R)*" ("SFAS 167"). SFAS 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities ("FIN 46(R)"). SFAS



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167 amends FIN 46(R) to require an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. This statement requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. SFAS 167 will be effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. We are currently evaluating the impact on our consolidated financial statements of adopting this standard.

In June 2009, the FASB issued SFAS No. 168 "*The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – A Replacement of FASB Statement No. 162*" ("SFAS 162"). SFAS 168 establishes the FASB Accounting Standards Codification™ (Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. SFAS 168 and the Codification will be effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS 168 will not have an impact on our consolidated financial statements. This will have an impact on our financial statements, since all future reference to authoritative accounting literature will be references in accordance with SFAS 168.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS**

#### **FOREIGN CURRENCY EXCHANGE RATE RISK**

While our reporting currency is the US 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 US Dollar and RMB. If the RMB depreciates against the US Dollar, the value of our RMB revenues and assets as expressed in our US Dollar financial statements will decline. We do not hold any derivative or other financial instruments that expose us to substantial market risk.

The RMB is currently freely convertible under the "current account", which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account", which includes foreign direct investment. In addition, commencing on July 21, 2005, China reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Under the managed floating exchange rate regime, the RMB is no longer pegged to the US Dollar. The exchange rate of the RMB against the US Dollar was adjusted to RMB 8.11 per US Dollar as of July 21, 2005, representing an appreciation of about 2%. The People's Bank of China will announce the closing prices of foreign currencies such as the US Dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each business day, and will make such prices the central parity for trading against the RMB on the following business day. On May 19, 2007, the People's Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against the US Dollar in the inter-bank spot foreign exchange market from 0.3% to 0.5%. While the international reactions to the RMB revaluation and widening of the RMB's daily trading band have generally been positive, with the increased floating range of the RMB's value against foreign currencies, the RMB may appreciate or depreciate significantly in value against the US Dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued. 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 June 30, 2009, which consisted of cash and cash equivalents, restricted cash, accounts receivables, and accounts payables. The maturity of those financial instruments was less than one year and their book value approximated fair value.

	Denominated in (in thousands)			Total
	USD	RMB	HKD	
Cash and cash equivalents	\$216,329	\$329,820	\$ 597	\$546,746
Receivables	664	63,415	87	64,166
Payables	11,406	122,768	206	134,380

#### **INTEREST RATE RISK**

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in demand deposits. We have not used derivative financial instruments in our investment portfolio in order to reduce interest rate risk. Interest earning instruments carry a degree of interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates.



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

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

#### **PART II - OTHER INFORMATION**

##### **ITEM 1. LEGAL PROCEEDINGS**

There have been no material developments in the legal proceedings reported in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC on February 26, 2009.

##### **ITEM 1A. RISK FACTORS**

###### ***Restrictions on Virtual Currency May Adversely Affect Our Online Game Revenues***

Our online game revenues are collected through the sale of our prepaid cards or online sale of game points. Pursuant to the Internet Cafés Notice, the People’s Bank of China has been directed to strengthen the administration of virtual currency in online games to avoid any adverse impact on the economic and financial order. This notice provides that the total amount of virtual currency issued by online game operators and the amount purchased by individual users should be strictly limited, with a strict and clear division between virtual transactions and real transactions carried out by way of electronic commerce. This notice also provides that virtual currency should only be used to purchase virtual items. On June 4, 2009, the Ministry of Culture and the Ministry of Commerce jointly issued the Notice on Strengthening the Administration of Online Game Virtual Currency (the “Notice”). In this notice, the authorities for the first time define “Virtual Currency” as a type of virtual exchange instrument issued by online game operators, purchased directly or indirectly by the game user by exchanging legal currency at a certain exchange rate, saved outside the game programs, stored in servers provided by the online game operators in electronic record format and represented by specific numeric units. In addition, the Notice categorizes companies involved with virtual currency as either issuers or trading platforms and prohibits companies from simultaneously engaging both as issuers and as trading platforms. Most importantly, one of the Notice’s stated intended objectives is to limit the circulation of virtual currency and thereby reduce concerns that it may impact real world inflation. Specifically, the Notice provides that online game operators are required to report the total amount of their issued virtual currencies on a quarterly basis and game operators are prohibited from issuing disproportionate amounts of virtual currencies in order to generate revenues. In addition, the Notice reiterates that virtual currency can only be provided to users in exchange for an RMB payment and can only be used to pay for virtual goods and services of the issuers. Online game operators are strictly prohibited from providing lucky draws or lotteries which are conducted on the condition that participants contribute cash or virtual currencies in exchange for game props or virtual currencies. The Notice also places potentially burdensome obligations on online game operators, including a requirement that operators keep transaction data records for no less than 180 days and a prohibition on operators’ providing virtual currency trading services to minors. In order to comply with the requirements of the Notice, it may be necessary for us to change our virtual currency distribution channel, and our business model may be affected accordingly and we may put more efforts in consummating our database so as to keep users’ information longer. These restrictions may result in higher costs of our online game operation and lower sales of our prepaid cards or game points, which may have an adverse effect on our games revenue.

###### ***Impact of Changyou’s Initial Public Offering on Sohu***

On April 7, 2009, Changyou completed its initial public offering on the NASDAQ Global Select Market. The impact of this offering on us included the following factors that could be considered to be adverse:

- Share-based compensation expense will increase as the unvested restricted share units granted to Changyou executive officers and employees vest under share-based award arrangements.
- Restricted share units granted to Changyou executive officers and employees will be dilutive securities for the purposes of computing diluted earnings per share of Changyou. This will have a corresponding impact on the computation of Sohu’s diluted earnings per share.

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- As a separate publicly listed company, Changyou may have interests that differ from, or may even be contrary to, those of Sohu. Although we have entered into various agreements covering transactions between Changyou and us, we may have disagreements on certain matters. Our business might be adversely affected by such disagreements.

There are no other 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, 2008 filed with the SEC on February 26, 2009.

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

#### ***Use of Proceeds***

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

During the three months ended June 30, 2009, Sohu did not use any proceeds from this offering. The remaining net proceeds from the offering have been invested in cash and cash equivalents. The use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus contained in the Registration Statement on Form S-1 described above.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On June 19, 2009, Sohu held its Annual Meeting of Stockholders. At the meeting, the stockholders elected as directors Dr. Charles Zhang (with 31,623,151 affirmative votes and 282,742 votes withheld), Mr. Charles Huang (with 31,828,770 affirmative votes and 77,123 votes withheld), Dr. Dave Qi (with 31,804,679 affirmative votes and 101,214 votes withheld), and Mr. Wang Shi (with 18,791,372 affirmative votes and 13,114,521 votes withheld). The other directors of the Company whose term continued after the 2009 Annual Meeting are Dr. Edward B. Roberts and Dr. Zhonghan Deng.

The stockholders also ratified the appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as Sohu's independent accountants for the fiscal year ending December 31, 2009 (with 31,711,348 shares voting for, 176,305 against, and 18,240 abstaining).

### **ITEM 5. OTHER INFORMATION**

None.

### **ITEM 6. EXHIBITS**

Please see the Exhibit Index attached hereto.

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**SIGNATURES**

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

Dated: August 7, 2009

**SOHU.COM INC.**

By: /s/ Carol Yu  
Co-President and Chief Financial Officer

Sohu.com Inc.

Quarterly Report on Form 10-Q For Quarter Ended June 30, 2009

**EXHIBIT INDEX**

- 10.1 Underwriting Agreement, dated April 1, 2009, for Changyou.com Limited's initial public offering
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Charles Zhang
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Carol Yu
- 32.1 Section 1350 Certification of Charles Zhang
- 32.2 Section 1350 Certification of Carol Yu

**Changyou.com Limited**  
**7,500,000 American Depositary Shares**  
**Representing**  
**15,000,000 Class A Ordinary Shares**  
**UNDERWRITING AGREEMENT**

April 1, 2009

CREDIT SUISSE SECURITIES (USA) LLC  
Eleven Madison Avenue  
New York, New York 10010-3629  
U.S.A.

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED  
4 World Financial Center  
250 Vesey Street,  
New York, New York 10080  
U.S.A.

As Representatives of the Several Underwriters

Dear Sirs:

1. *Introductory.* Changyou.com Limited, a Cayman Islands company (the “**Company**”), agrees with the several Underwriters named in Schedule A hereto (the “**Underwriters**”) to issue and sell to the Underwriters, for whom you are acting as representatives (the “**Representatives**”), an aggregate of 3,750,000 American Depositary Shares (“**ADSs**”), each ADS representing two Class A ordinary shares, par value US\$0.01 per share (the “**Ordinary Shares**”), of the Company, and Sohu.com (Game) Limited (the “**Selling Shareholder**”), a Cayman Islands company and a wholly owned subsidiary of Sohu.com Inc. (“**Sohu**”), proposes to sell to the Underwriters an aggregate of 3,750,000 ADSs. The 7,500,000 ADSs to be sold by the Company and the Selling Shareholder are herein called the “**Firm Securities**.” The Selling Shareholder also proposes to sell to the Underwriters, at the option of the Underwriters, an aggregate of not more than 1,125,000 additional ADSs (the “**Optional Securities**”). The Firm Securities and the Optional Securities are herein collectively called the “**Offered Securities**.” Schedule B attached hereto lists the number of Firm Securities and maximum number of Optional Securities to be sold by the Company and the Selling Shareholder. Unless the context otherwise requires, each reference to the Firm Securities, the Optional Securities or the Offered Securities herein also includes the underlying Ordinary Shares (hereinafter referred to as the “**Firm Shares**,” “**Optional Shares**” and “**Offered Shares**”).

The ADSs purchased by the Underwriters pursuant to this agreement will be evidenced by American Depositary Receipts (“**ADRs**”) to be issued pursuant to a deposit agreement (the “**Deposit Agreement**”), to be entered into among the Company, The Bank of New York Mellon, as depositary (the “**Depositary**”), and owners and holders from time to time of the ADSs.

## 2. Representations and Warranties

(A) *Representations and Warranties of the Company.* The Company represents and warrants to, and agrees with, the several Underwriters that:

(a) *Filing and Effectiveness of Registration Statement; Certain Defined Terms.* The Company has filed with the Commission a registration statement on Form F-1 (No. 333-158061) covering the registration of the Offered Securities under the Act, including a related preliminary prospectus or prospectuses. At any particular time, this initial registration statement, in the form then on file with the Commission, including all information contained in the registration statement (if any) pursuant to Rule 462(b) and then deemed to be a part of the initial registration statement, and all 430A Information and all 430C Information, that in any case has not then been superseded or modified, shall be referred to as the “**Initial Registration Statement.**” The Company may also have filed, or may file with the Commission, a Rule 462(b) registration statement covering the registration of Offered Securities. At any particular time, this Rule 462(b) registration statement, in the form then on file with the Commission, including the contents of the Initial Registration Statement incorporated by reference therein and including all 430A Information and all 430C Information, that in any case has not then been superseded or modified, shall be referred to as the “**Additional Registration Statement.**” A registration statement on Form F-6 (No. 333-158104) relating to the ADSs has been filed with the Commission and has become effective (such registration statement on Form F-6, including all exhibits thereto, as amended through the time such registration statement becomes effective, being hereinafter called the “**ADS Registration Statement**”). The Company has also filed, in accordance with Section 12 of the Exchange Act, a registration statement (such registration statement as amended through the time such registration statement becomes effective, being hereinafter called the “**Exchange Act Registration Statement**”), on Form 8-A (No. 001-34271) under the Exchange Act to register, under Section 12(b) of the Exchange Act, the Ordinary Shares and the ADSs. For purposes of this Agreement, all references to the Initial Registration Statement, the Additional Registration Statement, the ADS Registration Statement, the Exchange Act Registration Statement, any preliminary prospectus or any amendment or supplement, or the Final Prospectus (including any prospectus wrapper) to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system (“**EDGAR**”).

As of the time of execution and delivery of this Agreement, the Initial Registration Statement has been declared effective under the Act and is not proposed to be amended, and the Exchange Act Registration Statement has become effective, as provided in Section 12 of the Exchange Act. Any Additional Registration Statement has or will become effective upon filing with the Commission pursuant to Rule 462(b) and is not proposed to be amended. The Offered Securities all have been or will be duly registered under the Act pursuant to the Initial Registration Statement and, if applicable, the Additional Registration Statement.

For purposes of this Agreement:

“**430A Information,**” with respect to any registration statement, means information included in a prospectus and retroactively deemed to be a part of such registration statement pursuant to Rule 430A(b).

“**430C Information,**” with respect to any registration statement, means information included in a prospectus then deemed to be a part of such registration statement pursuant to Rule 430C.

“**Act**” means the Securities Act of 1933, as amended.

“**Applicable Time**” means 9:25 p.m. (U.S. Eastern time) on the date of this Agreement.

“**Closing Date**” has the meaning defined in Section 3 hereof.

“**Commission**” means the Securities and Exchange Commission.

“**Effective Time**,” with respect to the Initial Registration Statement or, if filed prior to the execution and delivery of this Agreement, the Additional Registration Statement, means the date and time as of which such Registration Statement was declared effective by the Commission or has become effective upon filing pursuant to Rule 462(c). If an Additional Registration Statement has not been filed prior to the execution and delivery of this Agreement but the Company has advised the Representatives that it proposes to file one, “**Effective Time**” with respect to such Additional Registration Statement means the date and time as of which such Registration Statement is filed and becomes effective pursuant to Rule 462(b).

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Final Prospectus**” means the Statutory Prospectus that discloses the public offering price, other 430A Information and other final terms of the Offered Securities and otherwise satisfies Section 10(a) of the Act.

“**General Use Issuer Free Writing Prospectus**” means any Issuer Free Writing Prospectus that is intended for general distribution to prospective investors (other than a Bona Fide Electronic Road Show (as defined below,)) as evidenced by its being so specified in Schedule C to this Agreement.

“**Issuer Free Writing Prospectus**” means any “issuer free writing prospectus,” as defined in Rule 433, relating to the Offered Securities in the form filed or required to be filed with the Commission or, if not required to be filed, in the form retained in the Company’s records pursuant to Rule 433(g), or is a “road show that is a written communication” within the meaning of Rule 433(d)(8)(i), whether or not required to be filed with the Commission. The Company has made available a “bona fide electronic road show,” as defined in Rule 433, in compliance with Rule 433(d)(8)(ii) (the “**Bona Fide Electronic Road Show**”) such that no filing of any “road show” (as defined in Rule 433(h)) is required in connection with the offering of the Offered Securities.

“**Limited Use Issuer Free Writing Prospectus**” means any Issuer Free Writing Prospectus that is not a General Use Issuer Free Writing Prospectus.

The Initial Registration Statement and the Additional Registration Statement are referred to collectively as the “**Registration Statements**” and individually as a “**Registration Statement**.” A “**Registration Statement**” with reference to a particular time means the Initial Registration Statement and any Additional Registration Statement as of such time. A “**Registration Statement**” without reference to a time means such Registration Statement as of its Effective Time. For purposes of the foregoing definitions, 430A Information with respect to a Registration Statement shall be considered to be included in such Registration Statement as of the time specified in Rule 430A.

“**Rules and Regulations**” means the rules and regulations of the Commission.

“**Securities Laws**” means, collectively, the Sarbanes-Oxley Act of 2002 (“**Sarbanes-Oxley**”), the Act, the Exchange Act, the Rules and Regulations, the auditing principles, rules, standards and practices applicable to auditors of “issuers” (as defined in Sarbanes-Oxley) promulgated or approved by the Public Company Accounting Oversight Board and, as applicable, and the NASDAQ Stock Market Rules (“**Exchange Rules**”).

“**Statutory Prospectus**,” with reference to a particular time, means the prospectus included in a Registration Statement immediately prior to that time, including any 430A Information or 430C Information with respect to such Registration Statement. For purposes of the foregoing definition, 430A Information shall be considered to be included in the Statutory Prospectus as of the actual time that form of prospectus is filed with the Commission pursuant to Rule 424(b) or Rule 462(c) and not retroactively.

Unless otherwise specified, a reference to a “rule” is to the indicated rule under the Act.

(b) *Compliance with Securities Act Requirements.* (i) (A) At their respective Effective Times, (B) on the date of this Agreement and (C) on each Closing Date, each of the Initial Registration Statement, the Additional Registration Statement (if any), the ADS Registration Statement and any amendments and supplement thereto conformed and will conform in all respects to the requirements of the Act and the Rules and Regulations and did not and will not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (ii) on its date, at the time of filing of the Final Prospectus pursuant to Rule 424(b) or (if no such filing is required) at the Effective Time of the Additional Registration Statement in which the Final Prospectus is included, and on each Closing Date, the Final Prospectus will conform in all respects to the requirements of the Act and the Rules and Regulations and will not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading. The preceding sentence does not apply to statements in or omissions from any such document based upon written information furnished to the Company by any Underwriter through the Representatives specifically for use therein, it being understood and agreed that the only such information is that described as such in Section 8(c) hereof.

(c) *Ineligible Issuer Status.* (i) At the time of initial filing of the Initial Registration Statement and (ii) at the date of this Agreement, the Company was not and is not an “ineligible issuer,” as defined in Rule 405, including (x) the Company or any other subsidiary in the preceding three years not having been convicted of a felony or misdemeanor or having been made the subject of a judicial or administrative decree or order as described in Rule 405 and (y) the Company in the preceding three years not having been the subject of a bankruptcy petition or insolvency or similar proceeding, not having had a registration statement be the subject of a proceeding under Section 8 of the Act and not being the subject of a proceeding under Section 8A of the Act in connection with the offering of the Offered Securities, all as described in Rule 405.

(d) *General Disclosure Package.* As of the Applicable Time, neither (i) the General Use Issuer Free Writing Prospectus(es) issued at or prior to the Applicable Time and, the preliminary prospectus, dated March 17, 2009 (which is the most recent Statutory Prospectus distributed to investors generally) and the other information, if any, stated in Schedule C to this Agreement to be included in the General Disclosure Package, all considered together (collectively, the “**General Disclosure Package**”), nor (ii) any individual Limited Use Issuer Free Writing Prospectus, when considered together with the General Disclosure Package, included any untrue statement of a material fact or omitted to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The preceding sentence does not apply to statements in or omissions from any Statutory Prospectus or any Issuer Free Writing Prospectus in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives specifically for use therein, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in Section 8(c) hereof.

(e) *Issuer Free Writing Prospectuses.* Each Issuer Free Writing Prospectus, as of its issue date and at all subsequent times through the completion of the public offer and sale of the Offered Securities or until any earlier date that the Company notified or notifies the Representatives as described in the next sentence, did not, does not and will not include any information that conflicted, conflicts or will conflict with the information then contained in the Registration Statement, General Disclosure Package or Final Prospectus. If at any time following issuance of an Issuer Free Writing Prospectus there occurred or occurs an event or development as a result of which such Issuer Free Writing Prospectus conflicted or would conflict with the information then contained in the Registration Statement or as a result of which such Issuer Free Writing Prospectus, if republished immediately following such event or development, would include an untrue statement of a material fact or omitted or would omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they



were made, not misleading, (i) the Company has promptly notified or will promptly notify the Representatives and (ii) the Company has promptly amended or will promptly amend or supplement such Issuer Free Writing Prospectus to eliminate or correct such conflict, untrue statement or omission.

(f) *Good Standing of the Company.* The Company has been duly incorporated and is existing and in good standing under the laws of the Cayman Islands, with power and authority (corporate and other) to own its properties and conduct its business as described in the Registration Statement, General Disclosure Package and Final Prospectus; and the Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where such failure to be qualified would not, individually or in the aggregate, result in a material adverse effect on the condition (financial or otherwise), results of operations, business, properties or prospects of the Company and its Controlled Entities (as defined in Section 2(A)(g) below) taken as a whole (“**Material Adverse Effect**”). The Memorandum and Articles of Association or other constitutive or organizational documents of the Company comply with the requirements of applicable Cayman Islands law and are in full force and effect. Complete and correct copies of all constitutive documents of the Company and all amendments thereto have been delivered to the Representatives; except as set forth in the exhibits to the Registration Statement, no change will be made to any such constitutive documents on or after the date of this Agreement through and including each Closing Date.

(g) *Controlled Entities.* (i) The Company does not own or control, directly or indirectly, any corporation or entity other than Changyou.com (HK) Limited (“**Changyou HK**”), a wholly owned subsidiary of the Company incorporated under the laws of Hong Kong, AmazGame Entertainment (US), Inc., an indirect wholly owned subsidiary of the Company incorporated under the laws of the State of Delaware (“**AmazGame U.S.**”), Beijing AmazGame Age Internet Technology Co., Ltd. (“**AmazGame**”), an indirect wholly owned subsidiary of the Company incorporated under the laws of the People’s Republic of China (the “**PRC**”), and Beijing Gamease Age Digital Technology Co., Ltd. (“**Gamease**”), a variable interest entity of the Company incorporated under the laws of the PRC. Changyou HK, AmazGame U.S., AmazGame and Gamease shall be referred to hereinafter each as a “**Controlled Entity**” and collectively as the “**Controlled Entities.**” Other than the equity interests in Changyou HK, AmazGame U.S. and AmazGame and the control over Gamease, the Company does not own, directly or indirectly, any shares of stock or any other equity interests or long-term debt securities of, or otherwise control, any corporation, firm, partnership, joint venture, association or other entity; (ii) each Controlled Entity of the Company has been duly incorporated and is existing and in good standing under the laws of the jurisdiction of its incorporation, with power and authority (corporate and other) to own its properties and conduct its business as described in the Registration Statement, General Disclosure Package and Final Prospectus, and is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where such failure to be qualified would not, individually or in the aggregate, result in a Material Adverse Effect. The constitutive documents of each Controlled Entity comply with the requirements of applicable laws of the jurisdiction of its incorporation and are in full force and effect; (iii) all of the issued and outstanding capital stock of Changyou HK, AmazGame U.S. and AmazGame has been duly authorized and validly issued and is fully paid and nonassessable, and such capital stock is owned by the Company, directly or through a subsidiary, free from liens, encumbrances and defects; (iv) all of the issued and outstanding capital stock of Gamease has been duly authorized and validly issued and is fully paid and nonassessable, and such capital stock is owned directly by Tao Wang and a Sohu employee as set forth in the Registration Statement, General Disclosure Package and Final Prospectus, free from liens, encumbrances and defects except such as disclosed therein. Tao Wang and the Sohu employee are citizens of the PRC, and no application is pending in any other jurisdiction by them or on their behalf for naturalization or citizenship.

(h) *Offered Securities and Capitalization.* The Offered Securities and all other outstanding shares of capital stock of the Company have been duly authorized; the authorized equity capitalization of the Company is as set forth in the Registration Statement, General Disclosure Package and Final Prospectus; all outstanding shares of capital stock of the Company are, and, when the Offered Securities have been delivered and paid for in accordance with this Agreement on each Closing Date, such Offered Securities will have been, validly issued, fully paid and nonassessable, will conform to the information in the Registration Statement, General Disclosure Package and Final Prospectus and to the description of such Offered Securities contained in the Final Prospectus; there are no outstanding rights (including, without limitation, preemptive rights), warrants or options to acquire, or instruments convertible into or exchangeable for, any shares of capital stock or other equity interest in the Company or any of the Controlled Entities, or any contract, commitment, agreement, understanding or arrangement of any kind relating to the issuance of any capital stock of the Company or any such Controlled Entity, any such convertible or exchangeable securities or any such rights, warrants or options; the Offered Shares to be sold by the Company, when issued and delivered against payment thereof, may be freely deposited by the Company with the Depositary against issuance of ADRs evidencing the ADSs; the ADSs to be sold by the Company, when issued and delivered against payment thereof, will be freely transferable by the Company to or for the account of the Underwriters; and there are no restrictions on subsequent transfers of such ADSs under the laws of the Cayman Islands, the PRC or the United States, except as described in the Registration Statement, General Disclosure Package and Final Prospectus.

(i) *Intercompany Agreements.* The description of each of the Master Transaction Agreement, Asset Transfer Agreements, Technology Transfer Agreement, Trademark Assignment Agreement, Services Transfer Agreement, Non-Competition Agreement and Marketing Services Agreement (collectively, the “**Intercompany Agreements**”) in the Registration Statement, General Disclosure Package and Final Prospectus under the captions “Our History and Corporate Structure” and “Our Relationship with Sohu” is true and correct in all material respects. Each Intercompany Agreement has been duly authorized, executed and delivered by the relevant parties of such agreement, is in full force and effect, and constitutes a valid and binding obligation of such parties, enforceable against such parties in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting creditors’ rights or by equitable principles relating to enforceability. The execution, delivery and performance by the Company or its Controlled Entity of each of the Intercompany Agreements will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any Controlled Entity is bound or to which the Company or any Controlled Entity is subject, nor will such actions result in any violation of any applicable law or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any Controlled Entity or any of their properties or assets; nor will such actions result in any violation of any provision of any constitutive documents of the Company or its Controlled Entity; and no consent, approval, authorization or order of, or filing or registration with, any court or governmental agency or body is required for the execution and delivery by the Company or its Controlled Entity of, and compliance by the Company or its Controlled Entity with, the provisions of each of the Intercompany Agreements, except such as shall have been obtained or waived.

(j) *Restructuring Transactions.* The restructuring transactions described in the Registration Statement, General Disclosure Package and Final Prospectus relating to the carve-out of the Company from Sohu (the “**Restructuring Transactions**”) are true and correct in all material respects. Each of the Restructuring Transactions, and all the Restructuring Transactions taken as a

whole, (i) were and are in compliance with all applicable laws, orders, rules and regulations of any court or governmental agency or body having jurisdiction over the parties involved; (ii) were properly authorized and executed in compliance with the articles of association, business license or other corporate constitutive documents of the parties involved; and (iii) did not, do not and will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any Controlled Entity is bound or to which the Company or any Controlled Entity is subject.

(k) *VIE Agreements.* (i) The description of each of the agreements described under the caption “Our History and Corporate Structure” in the Registration Statement, General Disclosure Package and Final Prospectus relating to our corporate structure, to which any of AmazGame, Gamease and the shareholders of Gamease is a party (collectively, the “**VIE Agreements**”), is true and correct in all material respects, and all material agreements relating to our corporate structure have been so disclosed. Each party of the VIE Agreements has the legal right, power and authority (corporate and other, as the case may be) to enter into and perform their respective obligations under the VIE Agreements and has taken all necessary corporate action to authorize the execution, delivery and performance of, and have authorized, executed and delivered, each of the VIE Agreements; and each of the VIE Agreements constitutes a valid and legally binding obligation of the parties thereto, enforceable in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting creditors’ rights or by equitable principles relating to enforceability.

(ii) The execution and delivery by AmazGame, Gamease and shareholders of Gamease of, and the performance by AmazGame, Gamease and shareholders of Gamease of their respective obligations under, each of the VIE Agreements and the consummation by AmazGame, Gamease and shareholders of Gamease of the transactions contemplated therein did not, does not and will not: (A) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, lease, loan agreement or other agreement or instrument to which the Company, AmazGame, Gamease or shareholders of Gamease, as the case may be, are a party or by which the Company, AmazGame, Gamease and shareholders of Gamease are bound or to which any of the properties or assets of the Company, AmazGame, Gamease or shareholders of Gamease are subject; (B) result in any violation of the provisions of constitutive documents or business license of the Company, AmazGame or Gamease, as the case may be; or (C) result in any violation of any PRC statute or any order, rule or regulation of any PRC governmental agency having jurisdiction over the Company, AmazGame, Gamease, shareholders of Gamease or any of their properties.

(iii) Each of the VIE Agreements is in proper legal form under the laws of the PRC for the enforcement thereof against either AmazGame, Gamease or shareholders of Gamease, as the case may be, in the PRC without further action by AmazGame, Gamease or shareholders of Gamease, as the case may be; and to ensure the legality, validity, enforceability or admissibility in evidence of each of the VIE Agreements in the PRC, it is not necessary that any such document be filed or recorded with any court or other authority in the PRC or that any stamp or similar tax be paid on or in respect of any of the VIE Agreements.

(iv) The Company possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of Gamease, through, among other things, its rights to direct the shareholders of Gamease as to the exercise of their voting rights.

(v) The agreements relating to the structure of the predecessors of the Company and its Controlled Entities, to the extent such agreements apply to the business of the Company and its Controlled Entities as described in the Registration Statement, General Disclosure Package and Final Prospectus, were in compliance with all applicable laws and regulations.

(l) *Operating and Other Company Data.* All operating and other Company data disclosed in the Registration Statement, General Disclosure Package and Final Prospectus, including but not limited to, the number of peak concurrent users, average concurrent users and active paying accounts, the amount of average revenue per active paying account, and sales discount offered to the Company's distributors and game players who purchase game points through Sohu's PEAK system as well as other charges related to the Company's sales and distribution of prepaid game cards and game points, are true and accurate in all material respects.

(m) *Game Operations.* There have been no material disruptions of the operations of any online game of, nor any material breaches to any online-payment systems used by, the Company and its Controlled Entities or their respective predecessors, and to the best knowledge of the Company after due inquiry, there are no facts or circumstances that are reasonably likely to lead to such material disruptions or breaches.

(n) *Game License.* There have been no material disputes with any of the parties to which the Company or any of its Controlled Entities licenses out its online games, and to the best knowledge of the Company after due inquiry, there are no facts or circumstances that are reasonably likely to lead to any material disputes with such parties or any premature expiration of the license agreements.

(o) *Directors and Officers.* To the best knowledge of the Company after due inquiry, none of the Company's directors, director nominees or executive officers is a party to any legal, governmental or regulatory proceeding that causes such director or officer to be unsuitable for his or her position on the board or in the Company.

(p) *Independent Accountants.* PricewaterhouseCoopers Zhong Tian CPAs Limited Company, which has certified certain financial statements of the Company and its Controlled Entities, is an independent registered public accounting firm with respect to the Company and its Controlled Entities within the applicable rules and regulations adopted by the Commission and the Public Company Accounting Oversight Board (United States) and as required by the Act.

(q) *No Finder's Fee.* Except as disclosed in the Registration Statement, General Disclosure Package and Final Prospectus, there are no contracts, agreements or understandings between the Company and any person that would give rise to a valid claim against the Company or any Underwriter for a brokerage commission, finder's fee or other like payment in connection with this offering. To the best knowledge of the Company after due inquiry, there are no arrangements, agreements, understandings, payments or issuance with respect to the Company, its Controlled Entities, or any of their officers, directors, shareholders, partners, employees or affiliates that may affect the Underwriters' compensation as determined by the Financial Industry Regulatory Authority (the "FINRA").

(r) *Registration Rights.* There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities in the securities registered pursuant to a Registration Statement or in any securities being registered pursuant to any other registration statement filed by the Company under the Act (collectively, "**registration rights**").

(s) *Listing.* The Offered Securities have been approved for listing on the Nasdaq Global Select Market, subject only to notice of issuance.

(t) *Absence of Further Requirements.* No consent, approval, authorization, or order of, or filing or registration with, any person (including any governmental agency or body or any court) is required for the consummation of the transactions contemplated by this Agreement and the Deposit Agreement (collectively, the “**Transaction Documents**”) in connection with the offering, issuance and sale of the Offered Securities by the Company, except such as have been obtained, or made and such as may be required under state securities laws.

(u) *Title to Property.* The Company and its Controlled Entities have good and marketable title to all real properties and all other material properties and assets owned by them, in each case free from liens, charges, encumbrances and defects that would affect the value thereof or interfere with the use made or to be made thereof by them and the Company and its Controlled Entities hold any leased real or personal property under valid and enforceable leases with no terms or provisions that would materially interfere with the use made or to be made thereof by them.

(v) *Absence of Defaults and Conflicts Resulting from Transaction.* The execution, delivery and performance by the Company of the Transaction Documents, the issuance and sale of the Offered Securities by the Company hereunder, the deposit of the Offered Shares with the Depositary against issuance of the ADRs evidencing the Offered Securities and the consummation of the transactions contemplated by the Transaction Documents in connection with this offering will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default or a Debt Repayment Triggering Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its Controlled Entities pursuant to, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its Controlled Entities is a party or by which the Company or any of its Controlled Entities is bound or to which any of the properties or assets of the Company or any of its Controlled Entities is subject; (ii) result in any violation of the provisions of the articles of association, business license or other constituent documents of the Company or any of its Controlled Entities; (iii) result in the violation of any judgment, law or statute or any order, rule or regulation of any court or arbitrator or governmental or regulatory authority having jurisdiction over the Company or any of its Controlled Entities or any of their properties or assets. A “**Debt Repayment Triggering Event**” means any event or condition that gives, or with the giving of notice or lapse of time would give, the holder of any note, debenture, or other evidence of indebtedness (or any person acting on such holder’s behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company or any of its Controlled Entities.

(w) *Possession of Licenses and Permits, Compliance with Laws.* Except as disclosed in the Registration Statement, General Disclosure Package and Final Prospectus, the Company and its Controlled Entities possess, and are in compliance with the terms of, all adequate certificates, authorizations, franchises, licenses and permits and have made all declarations and filings with, the appropriate domestic or foreign governmental or regulatory authorities (collectively, “**Licenses**”) necessary or material to the conduct of the business now conducted or proposed in the Registration Statement, General Disclosure Package and Final Prospectus to be conducted by them and have not received any notice of proceedings relating to the revocation or modification of any Licenses, except where failure to be in compliance would not, individually or in the aggregate, result in a Material Adverse Effect. Except as disclosed in the Registration Statement, General Disclosure Package and Final Prospectus, the Company and its Controlled Entities are in compliance with all applicable laws in the jurisdictions to which such entities are subject, except where failure to be in compliance would not, individually or in the aggregate, result in a Material Adverse Effect.

(x) *Absence of Existing Defaults and Conflicts.* Neither the Company nor any of its Controlled Entities is (i) in violation of its respective Memorandum and Articles of Association or other constitutive documents, or (ii) in default (or with the giving of notice or lapse of time would be in default) under any existing obligation, agreement, covenant or condition contained in any indenture, loan agreement, mortgage, lease or other agreement or instrument to which any of them is a party or by which any of them is bound or to which any of the properties of any of them is subject, except in the case of (ii) such defaults that would not, individually or in the aggregate, result in a Material Adverse Effect.

(y) *Authorization of Underwriting Agreement.* This Agreement has been duly authorized, executed and delivered by the Company.

(z) *Authorization of Deposit Agreement.* The Deposit Agreement has been duly authorized, executed and delivered by the Company and constitutes a valid and legally binding agreement of the Company enforceable against the Company in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting creditors' rights or by equitable principles relating to enforceability. Upon due execution and delivery by the Depositary of ADRs evidencing Offered Securities and the deposit of Offered Shares in respect thereof in accordance with the provisions of the Deposit Agreement, such ADRs will be duly and validly issued and the persons in whose names the ADRs are registered will be entitled to the rights specified therein and in the Deposit Agreement; and the Deposit Agreement and the ADRs conform in all material respects to the descriptions thereof contained in the Registration Statement, General Disclosure Package and Final Prospectus.

(aa) *Description of Transaction Documents.* Description of each Transaction Document in the Registration Statement, General Disclosure Package and Final Prospectus conforms in all material respects to such Transaction Document.

(bb) *Absence of Labor Dispute.* No labor dispute with the employees of the Company or any of its Controlled Entities exists or, to the best knowledge of the Company after due inquiry, is threatened or contemplated.

(cc) *Possession of Intellectual Property.* The Company and its Controlled Entities own, possess or can acquire on reasonable terms trademarks, trade names, patent rights, copyrights, domain names, licenses, approvals, trade secrets, inventions, technology, know-how and other intellectual property and similar rights, including registrations and applications for registration thereof (collectively, "**Intellectual Property Rights**") necessary or material to the conduct of the business now conducted or proposed in the Registration Statement, General Disclosure Package and Final Prospectus to be conducted by them, and the expected expiration of any such Intellectual Property Rights would not, individually or in the aggregate, have a Material Adverse Effect. Except as disclosed in the Registration Statement, General Disclosure Package and Final Prospectus, (i) to the best knowledge of the Company after due inquiry, there are no rights of third parties to any of the Intellectual Property Rights owned by the Company or its Controlled Entities; (ii) there is no pending or, to the best knowledge of the Company after due inquiry, threatened action, suit, proceeding or claim by others challenging the validity, enforceability or scope of any such Intellectual Property Rights, and the Company is unaware of any facts which would form a reasonable basis for any such claim; (iii) to the best knowledge of the Company after due inquiry, there is no material infringement, misappropriation, breach, default or other violation, or the occurrence of any event that with notice or the passage of time would constitute any of the foregoing, by any third parties of any of the Intellectual Property Rights of the Company or its Controlled Entities; (iv) none of the Company and its Controlled Entities is in violation of any Intellectual Property Rights of any third parties, except where such violations would not, individually or in the aggregate, result in a Material Adverse Effect, and there is no pending or, to the best

knowledge of the Company after due inquiry, threatened action, suit, proceeding or claim by others challenging the Company's or any Controlled Entity's rights in or to, or the violation of any of the terms of, any of such third parties' Intellectual Property Rights, and the Company is unaware of any facts which would form a reasonable basis for any such claim; and (v) none of the Intellectual Property Rights used by the Company or its Controlled Entities in their businesses has been obtained or is being used by the Company or its Controlled Entities in violation of any contractual obligation binding on the Company, or any of its Controlled Entities, or, to the best knowledge of the Company after due inquiry, is in violation of the rights of any third parties.

(dd) *Rights Relating to TLBB and DMD.* The Company and its Controlled Entities had and have all necessary legal rights to adapt the Louis Cha novels "Tian Long Ba Bu" and "Duke of Mount Deer" into online games and operate such online games in the manner as described in the Registration Statement, General Disclosure Package and Final Prospectus at all applicable time. The license agreements between the Company's Controlled Entities, or their predecessors, as the case may be, and Louis Cha relating to the Company's games TLBB and DMD are, or were, valid and legally binding obligations of the parties thereto, and neither the Company's Controlled Entities (including their predecessors) nor, to the best knowledge of the Company after due inquiry, Louis Cha is or was in breach of any provisions of such agreements. There is and has been no dispute between the Company's Controlled Entities (including their predecessors) and Louis Cha, and, to the best knowledge of the Company after due inquiry, there are no facts or circumstances that are reasonably likely to lead to any disputes relating to such license agreements.

(ee) *TLBB Trademark.* The operation of TLBB by the Company and its Controlled Entities is in compliance with PRC Laws in all material respects. Failure to register the Chinese name "Tian Long Ba Bu" as a trademark in the PRC will not affect in any respect the operation of the game, including the use of the Chinese name "Tian Long Ba Bu" in the way it is currently used in connection with such operation.

(ff) *Environmental Laws.* Neither the Company nor any of its Controlled Entities is in violation of any statute, any rule, regulation, decision or order of any governmental agency or body or any court, domestic or foreign, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, "**environmental laws**"), owns or operates any real property contaminated with any substance that is subject to any environmental laws, is liable for any off-site disposal or contamination pursuant to any environmental laws, or is subject to any claim relating to any environmental laws; and, to the best knowledge of the Company after due inquiry, there is no pending investigation which might lead to such a claim.

(gg) *Accurate Disclosure.* The statements in the Registration Statement, General Disclosure Package and the Final Prospectus under the headings "Summary," "Risk Factors," "Use of Proceeds," "Dividend Policy," "Enforceability of Civil Liabilities," "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Regulation," "Management," "Related Party Transactions," "Description of Share Capital," "Description of American Depositary Shares," "Shares Eligible for Future Sale," "Taxation" and "Underwriting," insofar as such statements summarize legal matters, agreements, documents or proceedings discussed therein, are accurate and fair summaries of such legal matters, agreements, documents or proceedings and present the information required to be shown.

(hh) *No Stabilization.* Neither the Company nor any director, officer, agent, employee, affiliate or person acting on its behalf has taken, directly or indirectly, any action designed, or which has constituted or might reasonably be expected to cause or result in, under the Exchange Act or otherwise, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Offered Securities.

(ii) *Statistical and Market-Related Data.* Any statistical and market-related data included in the Registration Statement, General Disclosure Package and Final Prospectus are based on or derived from sources that the Company believes to be reliable and accurate, and such data agree with the sources from which they are derived. The Company has obtained the written consent for the use of such data from such sources to the extent required.

(jj) *Internal Controls and Compliance with the Sarbanes-Oxley Act.* The Company, its Controlled Entities and the Company's Board of Directors (the "**Board**") are in compliance with Sarbanes-Oxley and all applicable Exchange Rules. The Company maintains a system of internal controls, including, but not limited to, disclosure controls and procedures, internal controls over accounting matters and financial reporting, an internal audit function and legal and regulatory compliance controls (collectively, "**Internal Controls**") that comply with the Securities Laws and are sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles ("**U.S. GAAP**") and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The Internal Controls are, or upon consummation of the offering of the Offered Securities will be, overseen by the Audit Committee (the "**Audit Committee**") of the Board in accordance with Exchange Rules. The Company has not publicly disclosed or reported to the Audit Committee or the Board, and within the next 90 days the Company does not reasonably expect to publicly disclose or report to the Audit Committee or the Board, a significant deficiency, material weakness, change in Internal Controls or fraud involving management or other employees who have a significant role in Internal Controls (each, an "**Internal Control Event**"), any violation of, or failure to comply with, the Securities Laws, or any matter which, if determined adversely, would have a Material Adverse Effect.

(kk) *Absence of Accounting Issues.* A member of the Board has confirmed to the Chief Financial Officer that, except as set forth in the Registration Statement, General Disclosure Package and Final Prospectus, the Board is not reviewing or investigating, and neither the Company's independent auditors nor its internal auditors have recommended that the Board review or investigate, (i) adding to, deleting, changing the application of, or changing the Company's disclosure with respect to, any of the Company's material accounting policies; (ii) any matter which could result in a restatement of the Company's financial statements for any annual or interim period during the current or prior three fiscal years; or (iii) any Internal Control Event.

(ll) *Litigation.* There are no pending actions, suits or proceedings (including, to the best knowledge of the Company after due inquiry, any inquiries or investigations by any court or governmental agency or body, domestic or foreign) against or affecting the Company, any of its Controlled Entities or any of their respective properties that, if determined adversely to the Company or any of its Controlled Entities, would have a Material Adverse Effect, or would materially and adversely affect the ability of the Company to perform its obligations under the Transaction Documents, or which are otherwise material in the context of the sale of the Offered Securities; and no such actions, suits or proceedings (including any inquiries or investigations by any court or governmental agency or body, domestic or foreign) are, to the best knowledge of the Company after due inquiry, threatened or contemplated.



(mm) *Exhibits*. There are no statutes, regulations or contracts or other documents that are required under the Act to be filed as exhibits to the Registration Statement or described in the Registration Statement, General Disclosure Package and Final Prospectus that are not so filed or described.

(nn) *Financial Statements*. The financial statements and the related notes thereto included in each Registration Statement, the General Disclosure Package and Final Prospectus comply in all respects with the applicable requirements of the Act and the Exchange Act and present fairly the financial position of the Company and its consolidated entities as of the dates shown and their results of operations and cash flows for the periods shown; such financial statements have been prepared in conformity with U.S. GAAP applied on a consistent basis throughout the periods covered thereby; and the schedules included in each Registration Statement, the General Disclosure Package and Final Prospectus present fairly the information required to be stated therein. No pro forma financial statements are required to be included in the Registration Statement, General Disclosure Package and Final Prospectus under Article 11 of Regulation S-X.

(oo) *No Material Adverse Change in Business*. Except as disclosed in the Registration Statement, General Disclosure Package and Final Prospectus, since the end of the period covered by the latest audited financial statements included in the Registration Statement, General Disclosure Package and Final Prospectus, (i) there has been no change, nor any development or event involving a prospective change, in the condition (financial or otherwise), results of operations, business, properties or prospects of the Company and its Controlled Entities, taken as a whole that is material and adverse; (ii) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its equity capital stock; (iii) there has been no material adverse change in the capital stock, short-term indebtedness, long-term indebtedness, net current assets or net assets of the Company and its Controlled Entities; (iv) neither the Company nor any of its Controlled Entities has entered into any material transaction or agreement or incurred any material liability or obligation, direct or contingent, that is not disclosed in the Registration Statement, General Disclosure Package and Final Prospectus; and (v) neither the Company nor any of its Controlled Entities has sustained any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor disturbance or dispute or any action, order or decree of any court or arbitrator or governmental or regulatory authority, and (vi) to the best knowledge of the Company after due inquiry, there has been no change, nor any development or event involving a prospective change, in the condition (financial or otherwise), results of operations, business, properties or prospects of Sohu that will result in a Material Adverse Effect.

(pp) *Investment Company Act*. The Company is not and, after giving effect to the offering and sale of the Offered Securities and the application of the proceeds thereof as described in the Registration Statement, General Disclosure Package and Final Prospectus, will not be an “investment company” or an entity “controlled” by an “investment company” as defined in the Investment Company Act of 1940, as amended, and the rules and regulations of the Commission thereunder (collectively, the “**Investment Company Act**”).

(qq) *Ratings*. No “nationally recognized statistical rating organization” as such term is defined for purposes of Rule 436(g)(2) (i) has imposed (or has informed the Company that it is considering imposing) any condition (financial or otherwise) on the Company’s retaining any rating assigned to the Company or any securities of the Company or (ii) has indicated to the Company that it is considering any of the actions described in Section 9(ii) hereof.

(rr) *PFIC Status*. The Company was not a “passive foreign investment company” (“**PFIC**”) as defined in Section 1297 of the United States Internal Revenue Code of 1986, as amended, for its most recently completed taxable year and, based on the Company’s current projected income, assets and activities, the Company does not expect to be classified as a PFIC for its current taxable year.

(ss) *Payments in Foreign Currency.* Except as disclosed in the Registration Statement, General Disclosure Package and Final Prospectus, under current laws and regulations of the Cayman Islands, Hong Kong and the PRC and any political subdivision thereof, all dividends and other distributions declared and payable on the Offered Securities may be paid by the Company to the holder thereof in United States dollars or any other currency that may be converted into United State dollars and freely transferred out of the Cayman Islands, Hong Kong and the PRC and all such payments made to holders thereof or therein who are nonresidents of the Cayman Islands, Hong Kong or the PRC will not be subject to income, withholding or other taxes under laws and regulations of the Cayman Islands, Hong Kong and the PRC or any political subdivision or taxing authority thereof or therein and will otherwise be free and clear of any other tax, duty, withholding or deduction in the Cayman Islands, Hong Kong and the PRC or any political subdivision or taxing authority thereof or therein and without the necessity of obtaining any governmental authorization in the Cayman Islands, Hong Kong and the PRC or any political subdivision or taxing authority thereof or therein.

(tt) *Taxes.* The Company and its Controlled Entities have filed all tax returns that are required to be filed or have requested extensions thereof; and the Company and its Controlled Entities have paid all taxes (including any assessments, fines or penalties) required to be paid by them. All local and national PRC governmental tax holidays, exemptions, waivers, financial subsidies, and other local and national PRC tax relief, concessions and preferential treatment enjoyed by the Company or any Controlled Entity (including any predecessor) as described in the Registration Statement, General Disclosure Package and Final Prospectus are valid, binding and enforceable and do not violate any laws, regulations, rules, orders, decrees, guidelines, judicial interpretations, notices or other legislation of the PRC.

(uu) *No Undisclosed Relationships.* No relationship, direct or indirect, exists between or among the Company or any of its Controlled Entities, on the one hand, and the directors, officers, shareholders, customers or suppliers of the Company or any of its Controlled Entities, on the other, that is required by the Act to be described in the Registration Statement, General Disclosure Package and Final Prospectus and that is not so described in such documents.

(vv) *No Immunity.* None of the Company, its Controlled Entities, and any of their properties, assets or revenues is entitled to any right of immunity on the grounds of sovereignty from any legal action, suit or proceeding, from set-off or counterclaim, from the jurisdiction of any court, from services of process, from attachment prior to or in aid of execution of judgment, or from any other legal process or proceeding for the giving of any relief or for the enforcement of any judgment. The irrevocable and unconditional waiver and agreement of the Company in the Transaction Documents not to plead or claim any such immunity in any legal action, suit or proceeding based on the Transaction Documents is valid and binding under the laws of the Cayman Islands, Hong Kong and the PRC.

(ww) *Insurance.* Except as disclosed in the Registration Statement, General Disclosure Package and Final Prospectus, the Company and its Controlled Entities have insurance covering their respective properties, operations, personnel and businesses; and neither the Company nor any of its Controlled Entities has (i) received notice from any insurer or agent of such insurer that capital improvements or other expenditures are required or necessary to be made in order to continue such insurance or (ii) any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage at reasonable cost from similar insurers as may be necessary to continue its business. Neither the Company nor any Controlled Entity has been denied any insurance coverage which it has sought or for which it has applied.

(xx) *Business Practices.* None of the Company and the Controlled Entities, or, any of the respective executive officers or directors, or to the best knowledge of the Company after due inquiry, any employees, representatives, consultants or agents of the Company or any Controlled Entity has offered, promised, authorized or made, directly or indirectly, (A) any unlawful payments or (B) payments or other inducements (whether lawful or unlawful) to any Government Official (as defined below), with the intent or purpose of: (i) influencing any act or decision of such Government Official in his official capacity, (ii) inducing such Government Official to do or omit to do any act in violation of the lawful duty of such Government Official, (iii) securing any improper advantage for the Company or any of the Controlled Entities, or (iv) inducing such Government Official to use his influence with a government or instrumentality thereof, political party or international organization to affect or influence any act or decision of such government or instrumentality, political party or international organization, in order to assist the Company or any of the Controlled Entities in obtaining or retaining business for or with, or directing business to, any person. None of the Company and the Controlled Entities, or, any of the respective executive officers or directors, or to the best knowledge of the Company after due inquiry, any employees, representatives, consultants or agents of the Company or any Controlled Entity has offered, promised, authorized or made, directly or indirectly, any payments or other inducements specified in the preceding sentence to a Government Official in violation of anti-bribery laws, including but not limited to, the U.S. Foreign Corrupt Practices Act of 1977 or any other law, rule or regulation of similar purpose and scope. As used in this subsection and elsewhere in this Agreement, “**Government Official**” means (A) any employee or official of any government, including any employee or official of any entity owned or controlled by a government, (B) any employee or official of a political party, (C) any candidate for political office or his employee, or (D) any employee or official of an international organization. For the avoidance of doubt, the term Government Official shall include any employee or official of a television station owned or controlled by a government.

(yy) *Compliance with Money Laundering Laws.* The operations of the Company and its Controlled Entities are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the “**Money Laundering Laws**”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its Controlled Entities with respect to the Money Laundering Laws is pending or threatened.

(zz) *Compliance with OFAC.* None of the Company, the Controlled Entities, or to the best knowledge of the Company after due inquiry, any of the respective officers, employees, directors, representatives, consultants or agents of the Company or any Controlled Entity, has conducted or entered into a contract to conduct any transaction with the governments or any subdivision thereof, agents or representatives, residents of, or any entity based or resident in the countries that are currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department (“**OFAC**”); and none of the Company or the Controlled Entities has financed the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(aaa) *No Restrictions on Dividends from Subsidiary.* Except as disclosed in the Registration Statement, General Disclosure Package and Final Prospectus, no subsidiary of the Company is currently prohibited, directly or indirectly, under any applicable laws or regulations, any agreement or other instrument to which it is a party or is subject, from paying dividends to the Company, from making any other distribution on such subsidiaries’ capital stock, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary’s properties or assets to the Company or any other subsidiary of the Company.

(bbb) *No Transfer Taxes.* No stamp or other issuance or transfer taxes or duties and no capital gains, income, withholding or other taxes are payable by or on behalf of the Underwriters to the government of the Cayman Islands or the PRC, or any political subdivision or taxing authority thereof or therein in connection with (i) the deposit with the Depository of Offered Shares by the Company against the issuance of ADRs evidencing Offered Securities; (ii) the sale and delivery by the Company of the Offered Securities to or for the respective accounts of the several Underwriters; or (iii) the sale and delivery outside the Cayman Islands by the several Underwriters of the Offered Securities to the initial purchasers thereof in the manner contemplated by this Agreement.

(ccc) *No Reduction from Amounts Payable.* All amounts payable by the Company under this Agreement shall be made free and clear of and without deduction for or on account of any taxes imposed, assessed or levied by the Cayman Islands or the PRC or any authority thereof or therein, nor are any taxes imposed in the Cayman Islands or the PRC on, or by virtue of the execution or delivery of, such documents.

(ddd) *No Sale, Issuance or Distribution of Shares.* The Company has not sold, issued or distributed any shares of its capital stock during the six-month period preceding the date hereof, including any sales pursuant to Rule 144A, Regulation D or Regulation S of the Act, other than shares issued pursuant to employee benefit plans, qualified stock option plans or other employee compensation plans or pursuant to outstanding options, rights or warrants.

(eee) *Foreign Private Issuer.* The Company is a “foreign private issuer” within the meaning of Rule 405 under the Act.

(fff) *Transaction Documents under Cayman Law.* Each of the Transaction Documents is in proper form to be enforceable against the Company in the Cayman Islands in accordance with its terms; to ensure the legality, validity, enforceability or admissibility into evidence in the Cayman Islands of the Transaction Documents, it is not necessary that the Transaction Documents be filed or recorded with any court or other authority in the Cayman Islands (other than court filings in the normal course of proceedings) or that any stamp or similar tax (other than nominal stamp duty if the Transaction Documents are executed in or brought into the Cayman Islands) in the Cayman Islands be paid on or in respect of the Transaction Documents or any other documents to be furnished hereunder.

(ggg) *Forward-Looking Statements.* No forward-looking statement (within the meaning of Section 27A of the Act and Section 21E of the Exchange Act) contained in the Registration Statement, General Disclosure Package and Final Prospectus has been made without basis or has been disclosed other than in good faith.

(hhh) *No Undisclosed Indebtedness or Arrangements.* Except as disclosed in the Registration Statement, General Disclosure Package and Final Prospectus, no indebtedness (actual or contingent) and no contract or arrangement is outstanding between the Company or any of its Controlled Entities and any director or executive officer of the Company or any of its Controlled Entities or any person connected with such director or executive officer (including his/her spouse, minor children, any company or undertaking in which he/she holds a controlling interest) or any other third party; there are no relationships or transactions between the Company or any of its Controlled Entities on the one hand and its affiliates, officers and directors or their shareholders, customers or suppliers or any other third party on the other hand, which, although required to be disclosed, are not disclosed in the Registration Statement, General Disclosure Package and Final Prospectus.

(iii) *No Undisclosed Benefits*. The Company has no obligation to provide retirement, death or disability benefits to any of the present or past employees of the Company or any of its Controlled Entities, or to any other person. The Company and each Controlled Entity are in material compliance with all applicable laws relating to employee benefits.

(jjj) *Critical Accounting Policies*. The section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” in the Registration Statement, General Disclosure Package and Final Prospectus truly, accurately and completely in all respects describes: (i) accounting policies which the Company believes are important in the portrayal of the Company’s financial condition and results of operations and which require management’s most difficult, subjective or complex judgments (“**Critical Accounting Policies**”); (ii) judgments and uncertainties affecting the application of Critical Accounting Policies; and (iii) the likelihood that different amounts would be reported under different conditions or using different assumptions; and the Board and management of the Company have reviewed and agreed with the selection, application and disclosure of Critical Accounting Policies and have consulted with the Company’s independent registered public accounting firm and external counsel with regard to such disclosure.

(kkk) *Liquidity and Capital Resources*. The section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” in the Registration Statement, General Disclosure Package and Final Prospectus accurately and fully describes all trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that the Company believes would materially affect liquidity and are reasonably likely to occur. The section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Off-balance Sheet Commitments and Arrangements” in the Registration Statement, General Disclosure Package and Final Prospectus accurately and fully describes in all material respects all off-balance sheet transactions, arrangements and obligations of the Company or its Controlled Entities.

(lll) *Action against the Company*. Under the laws of the Cayman Islands, no holder of ADSs issued pursuant to the Deposit Agreement shall be entitled, except under the terms of the Deposit Agreement, to seek enforcement of its rights through the Depositary or its nominee registered as representative of the holders of the ADSs in a direct suit, action or proceeding against the Company.

(mmm) *Choice of Law*. The choice of the laws of the State of New York as the governing law of the Transaction Documents is a valid choice of law under the laws of the Cayman Islands and the PRC and will be honored by courts in the Cayman Islands and the PRC, subject to the conditions and restrictions described under the caption “Enforceability of Civil Liabilities” in the Registration Statement, General Disclosure Package and Final Prospectus. The Company has the power to submit, and pursuant to Section 17 of this Agreement and Section 7.07 of the Deposit Agreement, has legally, validly, effectively and irrevocably submitted, to the personal jurisdiction of each New York State and United States Federal court sitting in The City of New York (each, a “**New York Court**”) and has validly and irrevocably waived any objection to the laying of venue of any suit, action or proceeding brought in any such court; and the Company has the power to designate, appoint and authorize, and pursuant to Section 17 of this Agreement and Section 7.07 of the Deposit Agreement, has legally, validly, effectively and irrevocably designated, appointed and authorized, an agent for service of process in any action arising out of or relating to this Agreement, the Deposit Agreement, the Registration Statement, the General Disclosure Package, the Final Prospectus, the ADS Registration Statement or the offering of the Offered Securities in any New York Court, and service of process in any manner permitted by applicable laws effected on such authorized agent will be effective to confer valid personal jurisdiction over the Company as provided hereof or in the Deposit Agreement.

Any final judgment for a fixed or readily calculable sum of money rendered by a New York Court having jurisdiction under its own domestic laws in respect of any suit, action or proceeding against the Company based upon the Transaction Documents and any instruments or agreements entered into for the consummation of the transactions contemplated therein (i) would be declared enforceable against the Company without reexamination or review of the merits of the cause of action in respect of which the original judgment was given or re-litigation of the matters adjudicated upon or payment of any stamp, registration or similar tax or duty by the courts of the Cayman Islands, provided that (A) adequate service of process has been effected and the defendant has had a reasonable opportunity to be heard, (B) such judgments or the enforcement thereof are not contrary to the law, public policy, security or sovereignty of the Cayman Islands, (C) such judgments were not obtained by fraudulent means and do not conflict with any other valid judgment in the same matter between the same parties, and (D) an action between the same parties in the same matter is not pending in any Cayman Islands court at the time the lawsuit is instituted in the foreign court, and (ii) may be recognized and enforced by the courts of the PRC subject to the conditions and restrictions described under the caption “Enforceability of Civil Liabilities” in the Registration Statement, General Disclosure Package and Final Prospectus. The Company is not aware of any reason why the enforcement in the Cayman Islands or the PRC of such a New York Court judgment would be, as of the date hereof, contrary to public policy of the Cayman Islands or the PRC.

(nnn) *Related Party Transactions.* All the related party transactions required to be disclosed under the Securities Laws are disclosed in the Registration Statement, General Disclosure Package and Final Prospectus under the heading “Related Party Transactions,” and such disclosure is true and accurate in all material respects.

(ooo) *Merger or Consolidations.* Neither the Company nor any of its Controlled Entities has entered into any memorandum of understanding, letter of intent, definitive agreement or any similar agreements with respect to a merger or consolidation or an acquisition or disposition of assets, technologies, business units or businesses.

(ppp) *Termination of Contracts.* Neither the Company nor any of its Controlled Entities has sent or received any communication regarding termination of, or intent not to renew, any of the contracts or agreements referred to or described in the Registration Statement, General Disclosure Package and Final Prospectus, or referred to or described in, or filed as an exhibit to, the Registration Statement, and no such termination or non-renewal has been threatened by the Company or any of its Controlled Entities or, to the best knowledge of the Company after due inquiry, by any other party to any such contract or agreement.

(qqq) *Compliance with PRC Regulations.* Each of the Company and its Controlled Entities that were incorporated outside of the PRC has complied with, and has taken, or is in the process of taking, steps to ensure compliance by each of its shareholders, option holders, directors, officers and employees that is, or is directly or indirectly owned or controlled by, a PRC resident or citizen with any applicable rules and regulations of the relevant PRC government agencies (including but not limited to the Ministry of Commerce, the National Development and Reform Commission and the State Administration of Foreign Exchange) relating to overseas investment by PRC residents and citizens (the “**PRC Overseas Investment and Listing Regulations**”), including, without limitation, requesting each shareholder, option holder, director, officer, employee and Participant that is, or is directly or indirectly owned or controlled by, a PRC resident or citizen to complete any registration and other procedures required under applicable PRC Overseas Investment and Listing Regulations.

(rrr) *PRC Mergers and Acquisitions Rules.* The Company is aware of and has been advised as to the content of the Rules on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the “**PRC Mergers and Acquisition Rules**”) jointly promulgated by the Ministry of Commerce, the State Assets Supervision and Administration Commission, the State Tax

Administration, the State Administration of Industry and Commerce, the China Securities Regulatory Commission (the “CSRC”) and the State Administration of Foreign Exchange of the PRC on August 8, 2006, including the relevant provisions thereof which purport to require offshore special purpose entities formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, to obtain the approval of the CSRC prior to the listing and trading of their securities on an overseas stock exchange. The Company has received legal advice specifically with respect to the PRC Mergers and Acquisitions Rules from its PRC counsel and the Company understands such legal advice. The issuance and sale of the Offered Securities, the listing and trading of the Offered Securities on the Nasdaq Global Select Market or the consummation of the transactions contemplated by the Transaction Documents is not and will not be, as of the date hereof or at each Closing Date, as the case may be, adversely affected by the PRC Mergers and Acquisitions Rules or any official clarifications, guidance, interpretations or implementation rules in connection with or related to the PRC Mergers and Acquisitions Rules.

(sss) *Affiliation*. There are no affiliations or associations between (i) any member of the FINRA and (ii) the Company or any of the Company’s officers, directors or 5% or greater security holders or any beneficial owner of the Company’s unregistered equity securities that were acquired at any time on or after the 180th day immediately preceding the date the Registration Statement was first submitted to the Commission.

(ttt) *Representation of Officers and/or Directors*. Any certificate signed by any officer or director of the Company and delivered to the Representatives as required or contemplated by this Agreement shall constitute a representation and warranty hereunder by the Company, as to matters covered thereby, to each Underwriter.

(B) *Representations and Warranties of the Selling Shareholder and Sohu*. The Selling Shareholder and its controlling shareholder, Sohu, jointly and severally represents and warrants to, and agrees with, the several Underwriters that:

(a) *Good Standings*. The Selling Shareholder has been duly incorporated and is validly existing as an exempted company in good standing under the laws of the Cayman Islands. Sohu has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware. The Selling Shareholder is an indirect, wholly owned subsidiary of Sohu.

(b) *Offered Securities*. The Selling Shareholder has and at each Closing Date (as hereinafter defined), will have (i) good and marketable title to the Offered Shares underlying the Offered Securities to be delivered by the Selling Shareholder, free and clear of any liens, encumbrances, equities and claims and (ii) the legal right and power and any authorizations and approvals required by law, to enter into this Agreement and to sell, transfer and deliver the Offered Shares to be sold by the Selling Shareholder.

(c) *Security Interests*. Upon payment for the Offered Securities sold by the Selling Shareholder under this Agreement and the delivery by the Selling Shareholder to The Depository Trust Company (“DTC”) or its agent of the Securities in book entry form to a securities account maintained by the Representatives at the DTC or its nominee, and payment therefor in accordance with this Agreement, the Underwriters will acquire a securities entitlement (within the meaning of Section 8-501 of the New York Uniform Commercial Code (the “UCC”)) with respect to such Offered Securities, and no action based on an “adverse claim” (as defined in UCC Section 8-102) may be asserted against the Underwriters with respect to such security entitlement if, at such time, the Underwriters do not have notice of any adverse claim within the meaning of UCC Section 8-105.

(d) *Accurate Disclosure.* The representations and warranties of the Company contained in Section 2(A) above are true and correct. Each of the Selling Shareholder and Sohu has reviewed the Registration Statement and General Disclosure Package and will review the Final Prospectus and none of the Registration Statement, General Disclosure Package, and Final Prospectus or any amendments or supplements thereto includes any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and neither the Selling Shareholder nor Sohu is prompted to sell the Securities to be sold by the Selling Shareholder hereunder by any material information concerning the Company or any Controlled Entity of the Company which is not disclosed in the Registration Statement, General Disclosure Package or Final Prospectus.

(e) *Custody Agreement.* The Selling Shareholder has full right, power and authority to execute and deliver the Custody Agreement signed by the Selling Shareholder and the Company, as custodian (in such capacity, the “**Custodian**”), relating to the deposit of the Offered Shares to be sold by the Selling Shareholder (the “**Custody Agreement**”) in connection with the offer and sale of the Offered Securities contemplated herein and to perform its obligations under such agreements.

(f) *Power-of-Attorney.* The power of attorney (“**Power of Attorney**”), appointing certain individuals named therein as the Selling Shareholder’s attorneys-in-fact (each, an “**Attorney-in-Fact**”) relating to the transactions contemplated hereby and by the Registration Statement, General Disclosure Package and Final Prospectus constitutes a valid instrument granting the Attorneys-in-Fact named in such Power of Attorney, the power and authority stated therein, and permits the Attorneys-in-Fact, singly or collectively, to bind the Selling Shareholder with respect to all matters granted, conferred and contemplated in such Power of Attorney and such Power of Attorney has not been revoked, cancelled or terminated at any time.

(g) *Execution of Agreements.* This Agreement has been duly authorized, executed and delivered by the Selling Shareholder and Sohu; and the Power of Attorney and Custody Agreement in connection with the offer and sale of the Offered Securities contemplated herein has been duly authorized, executed and delivered by the Selling Shareholder.

(h) *Absence of Further Requirements.* The execution and delivery of this Agreement by the Selling Shareholder and Sohu, the execution and delivery of Power of Attorney and the Custody Agreement by the Selling Shareholder and the consummation by the Selling Shareholder of the transactions herein contemplated, and the fulfillment by the Selling Shareholder and Sohu of the terms hereof will not require any consent, approval, authorization, or other order of any court, regulatory body, administrative agency or other governmental body (except as may be required under the Act or by the securities or Blue Sky laws of the various states of the United States) and will not result in a breach of any of the terms and provisions of, or constitute a default under, organizational documents of the Selling Shareholder or Sohu or any indenture, mortgage, deed of trust or other agreement or instrument to which the Selling Shareholder or Sohu is a party, or of any order, rule or regulation applicable to the Selling Shareholder or Sohu of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction.

(i) *Shares Freely Depositible and Transferable.* The Offered Shares represented by the Offered Securities to be sold by the Selling Shareholder may be freely deposited by the Selling Shareholder with the Depository or with the Custodian as agent for the Depository in accordance with the Deposit Agreement against the issuance of ADRs evidencing ADSs representing such Offered Shares so deposited by the Selling Shareholder. Such deposited Offered Shares by the Selling Shareholder are freely transferrable by the Selling Shareholder.



(j) *Absence of Defaults and Conflicts Resulting from Transaction.* The execution, delivery and performance of this Agreement by the Selling Shareholder, the Power of Attorney and the Custody Agreement, the deposit of Offered Shares with the Depository and the consummation of the transactions herein contemplated by the Selling Shareholder, and the execution, delivery and performance of this Agreement by Sohu, will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, any statute, any rule, regulation or order of any governmental agency or body or any court, domestic or foreign, having jurisdiction over the Selling Shareholder, Sohu, or any of their respective properties, or any agreement or instrument to which the Selling Shareholder or Sohu is a party or by which the Selling Shareholder or Sohu is bound or to which any of the properties of the Selling Shareholder or Sohu is subject, or the articles of association or any other constitutive documents of the Selling Shareholder or Sohu.

(k) *No Stabilization.* Neither the Selling Shareholder nor Sohu nor any director, officer, agent, employee, affiliate or person acting on behalf of the Selling Shareholder or Sohu has taken, directly or indirectly, any action designed, or which has constituted or might reasonably be expected to cause or result in, under the Exchange Act or otherwise, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Offered Securities.

(l) *No FINRA Affiliations.* Neither the Selling Shareholder nor Sohu has any affiliations or associations with any member of FINRA.

(m) *No Finder's Fee.* There are no contracts, agreements or understandings between the Selling Shareholder or Sohu and any person that would give rise to a valid claim against the Selling Shareholder, Sohu or any Underwriter for a brokerage commission, finder's fee or other like payment in connection with this offering.

(n) *No Stamp or Transaction Taxes.* No transaction, stamp, capital or other issuance, registration, transaction, transfer or withholding taxes or duties are payable by or on behalf of the Underwriters in connection with (i) the deposit by the Selling Shareholder of the Offered Shares with the Custodian and the Depository and the issuance and delivery of the ADRs evidencing the Offered Securities; (ii) the delivery of such Offered Securities to or for the account of the Underwriters; (iii) the purchase from the Selling Shareholder and the initial sale and delivery by the Underwriters of the Offered Securities to purchasers thereof; or (iv) the execution and delivery of this Agreement by the Selling Shareholder and Sohu.

(o) *No Other Marketing Documents.* Neither the Selling Shareholder nor Sohu nor any director, officer, agent, employee, affiliate or person acting on behalf of the Selling Shareholder or Sohu has distributed any material related to the offering and sale of the Offered Securities by the Company and the Selling Shareholder, including any free writing prospectus, except the 8-K of Sohu and the free writing prospectus filed with the SEC on March 18, 2009.

(p) *No Registration Rights.* Neither the Selling Shareholder nor Sohu has any registration or other similar rights to have any equity or debt securities registered for sale by the Company.

(q) *No Pre-emptive Rights.* Neither the Selling Shareholder nor Sohu has any preemptive right, co-sale right or right of first refusal or other similar right to purchase any of the Offered Shares that are to be sold by the Company to the Underwriters pursuant to this Agreement; neither the Selling Shareholder nor Sohu owns any warrants, options or similar rights to acquire, or has any right or arrangement to acquire, any capital shares, right, warrants, options or other securities from the Company, other than those described in the Registration Statement, General Disclosure Package and Final Prospectus.

(r) *Business Practices*. Neither the Selling Shareholder nor Sohu, or any director or executive officer of the Selling Shareholder or Sohu, or to the best knowledge of the Selling Shareholder or Sohu after due inquiry, any agent, employee, affiliate or person acting on behalf of the Selling Shareholder or Sohu has offered, promised, authorized or made, directly or indirectly, (A) any unlawful payments or (B) payments or other inducements (whether lawful or unlawful) to any Government Official, with the intent or purpose of: (i) influencing any act or decision of such Government Official in his official capacity, (ii) inducing such Government Official to do or omit to do any act in violation of the lawful duty of such Government Official, (iii) securing any improper advantage, or (iv) inducing such Government Official to use his influence with a government or instrumentality thereof, political party or international organization to affect or influence any act or decision of such government or instrumentality, political party or international organization, in order to assist the Company or any of its subsidiaries in obtaining or retaining business for or with, or directing business to, any person. Neither the Selling Shareholder nor Sohu, or any director or executive officer of the Selling Shareholder or Sohu, or to the best knowledge of the Selling Shareholder or Sohu after due inquiry, any agent, employee, affiliate or person acting on behalf of the Selling Shareholder or Sohu has offered, promised, authorized or made, directly or indirectly, any payments or other inducements specified in the preceding sentence to a Government Officials in violation of anti-bribery laws, including but not limited to, the U.S. Foreign Corrupt Practices Act of 1977 or any other law, rule or regulation of similar purpose and scope, including those of the United States, Cayman Islands, or PRC.

(s) *OFAC*. Neither the Selling Shareholder nor Sohu nor any director, officer, agent, employee, affiliate or person acting on behalf of the Selling Shareholder or Sohu is currently subject to any United States sanctions administered by the OFAC; and neither the Selling Shareholder nor Sohu will directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(t) *Anti-Money Laundering Laws*. Neither the Selling Shareholders nor Sohu nor any director, officer, agent, employee, affiliate or person acting on behalf of the Selling Shareholder or Sohu has violated, and the Selling Shareholder and Sohu's participation in the offering will not violate, any Anti-Money Laundering Laws. Each of the Selling Shareholder and Sohu has instituted and maintains policies and procedures designed to ensure continued compliance with all applicable Anti-Money Laundering Laws.

(u) *Representation of Attorneys-in-Fact*. Any certificate signed by any Attorney-in-Fact of the Selling Shareholder and delivered to the Representatives or counsel for the Underwriters as required or contemplated by this Agreement will constitute a representation and warranty hereunder by the Selling Shareholder, as to matters covered thereby, to each Underwriter.

3. *Purchase, Sale and Delivery of Offered Securities*. On the basis of the representations, warranties and agreements and subject to the terms and conditions set forth herein, each of the Company and the Selling Shareholder agrees, severally and not jointly, to sell to the several Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company and the Selling Shareholder, at a purchase price of \$14.88 per ADS (representing the initial public offering price less underwriting commissions and concessions), the respective number of Firm Securities set forth opposite the names of the Underwriters in Schedule A hereto, plus any additional number of Firm Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof (rounded up or down at the discretion of the Representatives to avoid fractions).

Executed transfer forms for the Offered Shares represented by the Offered Securities to be sold by the Selling Shareholder hereunder have been placed in custody, for delivery under this Agreement, under a Custody Agreements made with the Company, as the Custodian. The Selling Shareholder agrees that the Offered Shares represented by the transfer forms held in custody for the Selling Shareholder under such Custody Agreements are subject to the interests of the Underwriters hereunder, that the arrangements made by the Selling Shareholder for such custody are to that extent irrevocable, and that the obligations of the Selling Shareholder hereunder shall not be terminated by operation of law or the occurrence of any other event.

The Company and the Custodian will deliver the Firm Securities to or as instructed by the Representatives for the accounts of the several Underwriters through the facilities of DTC in a form reasonably acceptable to the Representatives against payment of the purchase price by the Underwriters in Federal (same day) funds by wire transfer to an account at a bank acceptable to the Representatives drawn to the order of the Company (for itself and as Custodian for the Selling Shareholder) at 9:00 a.m., U.S. Eastern time, on April 7, 2009, or at such other time not later than seven full business days thereafter as the Representatives and the Company determine, such time being herein referred to as the “**First Closing Date**.” For purposes of Rule 15c6-1 under the Exchange Act, the First Closing Date (if later than the otherwise applicable settlement date) shall be the settlement date for payment of funds and delivery of securities for all the Firm Securities sold pursuant to the offering. The Firm Securities so to be delivered or evidence of their issuance will be made available for checking at the office of Davis Polk & Wardwell at 18/F, the Hong Kong Club Building, 3A Chater Road, Central, Hong Kong, at least 24 hours prior to the First Closing Date.

In addition, upon written notice from the Representatives given to the Custodian from time to time not more than 30 days subsequent to the date of the Final Prospectus, the Underwriters may purchase all or less than all of the Optional Securities at the same purchase price per ADS to be paid for the Firm Securities. The Selling Shareholder agrees to sell to the Underwriters the number of Optional Securities specified in such notice and the Underwriters agree, severally and not jointly, to purchase such Optional Securities. Such Optional Securities shall be purchased for the account of each Underwriter in the same proportion as the number of Firm Securities set forth opposite such Underwriter’s name bears to the total number of Firm Securities (subject to adjustment by the Representatives to eliminate fractions) and may be purchased by the Underwriters only for the purpose of covering over-allotments made in connection with the sale of the Firm Securities. No Optional Securities shall be sold or delivered unless the Firm Securities previously have been, or simultaneously are, sold and delivered. The right to purchase the Optional Securities or any portion thereof may be exercised from time to time and to the extent not previously exercised may be surrendered and terminated at any time upon notice by the Representatives to the Custodian.

Each time for the delivery of and payment for the Optional Securities, being herein referred to as an “**Optional Closing Date**,” which may be the First Closing Date (the First Closing Date and each Optional Closing Date, if any, being sometimes referred to as a “**Closing Date**”), shall be determined by the Representatives but shall be not later than five full business days after written notice of election to purchase Optional Securities is given. The Company will deliver the Optional Securities being purchased on each Optional Closing Date to or as instructed by the Representatives for the accounts of the several Underwriters in a form reasonably acceptable to the Representatives against payment of the purchase price therefor in Federal (same day) funds by wire transfer to an account at a bank acceptable to the Representatives drawn to the order of the Company, as Custodian of the Selling Shareholder. The Optional Securities being purchased on each Optional Closing Date or evidence of their issuance will be made available for checking at the above office of Davis Polk & Wardwell at a reasonable time in advance of such Optional Closing Date.

4. *Offering by Underwriters.* It is understood that the several Underwriters propose to offer the Offered Securities for sale to the public as set forth in the Final Prospectus.

5. *Certain Agreements of the Company, the Selling Shareholder and Sohu.*

(A) The Company agrees with the several Underwriters that:

(a) *Additional Filings.* Unless filed pursuant to Rule 462(c) as part of the Additional Registration Statement in accordance with the next sentence, the Company will file the Final Prospectus, in a form approved by the Representatives, with the Commission pursuant to and in accordance with subparagraph (1) (or, if applicable and if consented to by the Representatives, subparagraph (4)) of Rule 424(b) not later than the earlier of (A) the second business day following the execution and delivery of this Agreement or (B) the fifteenth business day after the Effective Time of the Initial Registration Statement. The Company will advise the Representatives promptly of any such filing pursuant to Rule 424(b) and provide satisfactory evidence to the Representatives of such timely filing. If an Additional Registration Statement is necessary to register a portion of the Offered Securities under the Act but the Effective Time thereof has not occurred as of the execution and delivery of this Agreement, the Company will file the Additional Registration Statement or, if filed, will file a post-effective amendment thereto with the Commission pursuant to and in accordance with Rule 462(b) on or prior to 10:00 p.m., U.S. Eastern time, on the date of this Agreement or, if earlier, on or prior to the time the Final Prospectus is finalized and distributed to any Underwriter, or will make such filing at such later date as shall have been consented to by the Representatives.

(b) *Filing of Amendments; Response to Commission Requests.* The Company will promptly advise the Representatives of any proposal to amend or supplement at any time the Initial Registration Statement, any Additional Registration Statement or any Statutory Prospectus and will not effect such amendment or supplementation without the Representatives' consent; and the Company will also advise the Representatives promptly of (i) the effectiveness of any Additional Registration Statement (if its Effective Time is subsequent to the execution and delivery of this Agreement), (ii) any amendment or supplementation of a Registration Statement or any Statutory Prospectus, (iii) any request by the Commission or its staff for any amendment to any Registration Statement, for any supplement to any Statutory Prospectus or for any additional information, (iv) the institution by the Commission of any stop order proceedings in respect of a Registration Statement or the threatening of any proceeding for that purpose, and (v) the receipt by the Company of any notification with respect to the suspension of the qualification of the Offered Securities in any jurisdiction or the institution or threatening of any proceedings for such purpose. The Company will use its best efforts to prevent the issuance of any such stop order or the suspension of any such qualification and, if issued, to obtain as soon as possible the withdrawal thereof.

(c) *Continued Compliance with Securities Laws.* If, at any time when a prospectus relating to the Offered Securities is (or but for the exemption in Rule 172 would be) required to be delivered under the Act by any Underwriter or dealer, any event occurs as a result of which the Final Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend the Registration Statement or supplement the Final Prospectus to comply with the Act, the Company will promptly notify the Representatives of such event and will promptly prepare and file with the Commission and furnish, at its own expense, to the Underwriters and the dealers and any other dealers upon request of the Representatives, an amendment or supplement which will correct such statement or omission or an amendment which will effect such compliance. Neither the Representatives' consent to, nor the Underwriters' delivery of, any such amendment or supplement shall constitute a waiver of any of the conditions set forth in Section 7 hereof.

(d) *Rule 158*. As soon as practicable, but not later than the Availability Date (as defined below), the Company will make generally available to its securityholders an earnings statement covering a period of at least 12 months beginning after the Effective Time of the Initial Registration Statement (or, if later, the Effective Time of the Additional Registration Statement) which will satisfy the provisions of Section 11(a) of the Act and Rule 158 under the Act. For the purpose of the preceding sentence, “**Availability Date**” means the 45th day after the end of the fourth fiscal quarter following the fiscal quarter that includes such Effective Time, except that, if such fourth fiscal quarter is the last quarter of the Company’s fiscal year, “**Availability Date**” means the 90th day after the end of such fourth fiscal quarter.

(e) *Furnishing of Prospectuses*. The Company will furnish to the Representatives copies of each Registration Statement (four of which will be signed and will include all exhibits), each related Statutory Prospectus, and, so long as a prospectus relating to the Offered Securities is (or but for the exemption in Rule 172 would be) required to be delivered under the Act, the Final Prospectus and all amendments and supplements to such documents, in each case in such quantities as the Representatives request. The Final Prospectus shall be so furnished on or prior to 3:00 p.m., U.S. Eastern time, on the second business day following the execution and delivery of this Agreement. All other documents shall be so furnished as soon as available. The Company will pay the expenses of printing and distributing to the Underwriters all such documents.

(f) *Blue Sky Qualifications*. The Company will arrange for the qualification of the Offered Securities for sale under the laws of such jurisdictions as the Representatives designate and will continue such qualifications in effect so long as required for the distribution.

(g) *Reporting Requirements*. During the period of five years hereafter, the Company will furnish to the Representatives and, upon request, to each of the other Underwriters, as soon as practicable after the end of each fiscal year, a copy of its annual report to stockholders for such year; and the Company will furnish to the Representatives (i) as soon as available, a copy of each report and any definitive proxy statement of the Company filed with the Commission under the Exchange Act or mailed to stockholders, and (ii) from time to time, such other information concerning the Company as the Representatives may reasonably request. However, so long as the Company is subject to the reporting requirements of either Section 13 or Section 15(d) of the Exchange Act and is timely filing reports with the Commission on EDGAR, it is not required to furnish such reports or statements to the Underwriters.

(h) *Payment of Expenses*. The Company will pay all expenses incident to the performance of its obligations under this Agreement, including, but not limited to, (i) the preparation, printing and filing of the Registration Statements (including financial statements and exhibits) as originally filed and of each amendment thereto, (ii) the preparation, printing and delivery of the Transaction Documents, (iii) the preparation, issuance and delivery of the certificates for the Offered Securities to the Underwriters, including any stock or other transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Offered Securities to the Underwriters, (iv) the fees and disbursements of the Company’s counsel, accountants and other advisors, (v) filing fees and other expenses incurred in connection with qualification of the Offered Securities for sale under the laws of such jurisdictions as the Representatives designate and the preparation and printing of memoranda relating thereto, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto, (vi) fees and expenses in connection with the registration of the Offered Securities under the Exchange Act, (vii) the printing and delivery to the Underwriters of copies of each Statutory Prospectus, any Issuer Free Writing Prospectus and of the Final Prospectus and any amendments or supplements thereto, and the delivery of such prospectuses to investors or prospective investors, (viii) fees and expenses of any transfer agent or registrar for the Offered Securities, (ix) fees and expenses incident to listing the Offered Securities on the Nasdaq Global Select Market, (x) all expenses and application fees incurred in connection with any filing with, and clearance of

the offering by the FINRA, and (xi) any costs and expenses of the Company (but not the Underwriters) relating to investor presentations or any “road show” in connection with the offering and sale of the Offered Securities including, without limitation, any travel expenses of the Company’s officers and employees and any other expenses of the Company, including the chartering of airplanes.

(i) *Use of Proceeds.* The Company will use the net proceeds received by it in connection with this offering in the manner described in the “Use of Proceeds” section of the Registration Statement, General Disclosure Package and Final Prospectus. The Company does not intend to use any of the proceeds from the sale of the Offered Securities by it hereunder to repay any outstanding debt owed to any affiliate of any Underwriter.

(j) *No Stabilization.* Neither the Company nor any director, officer, agent, employee, affiliate or person acting on its behalf will take, directly or indirectly, any action designed, or which will constitute or might reasonably be expected to cause or result in, under the Exchange Act or otherwise, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Offered Securities.

(k) *Taxes.* The Company will indemnify and hold harmless the Underwriters against any documentary, stamp or similar issue tax, including any interest and penalties, on the creation, issue and sale of the Offered Securities and on the execution and delivery of the Transaction Documents. All payments to be made by the Company hereunder shall be made without withholding or deduction for or on account of any present or future taxes, duties or governmental charges whatsoever unless the Company is compelled by law to deduct or withhold such taxes, duties or charges. In that event, the Company shall pay such additional amounts as may be necessary in order that the net amounts received after such withholding or deduction shall equal the amounts that would have been received if no withholding or deduction had been made.

(l) *Restriction on Sale of Securities.* For the period specified below (the “**Lock-Up Period**”), the Company will not, directly or indirectly, take any of the following actions with respect to its Ordinary Shares or ADSs, or any securities convertible into or exchangeable or exercisable for any of its Ordinary Shares or ADSs (the “**Lock-Up Securities**”): (i) offer, sell, issue, contract to sell, pledge or otherwise dispose of the Lock-Up Securities, (ii) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase the Lock-Up Securities, (iii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of the Lock-Up Securities, (iv) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in the Lock-Up Securities within the meaning of Section 16 of the Exchange Act or (v) file with the Commission a registration statement under the Act relating to the Lock-Up Securities, or publicly disclose the intention to take any such action, without the prior written consent of the Representatives. The foregoing will not apply to (A) the issuance of the Class A ordinary shares represented by the ADSs to be sold in this offering and the sale of such ADSs; (B) the grant of employee stock options or restricted share units pursuant to the terms of the Company’s 2008 Share Incentive Plan; or (C) the issuance of ordinary shares of the Company upon the vesting of restricted share units outstanding as of the date of this Agreement. The initial Lock-Up Period will commence on the date hereof and continue for 180 days after the date hereof; provided, however, that if (1) during the last 17 days of the initial Lock-Up Period, the Company releases earnings results or material news or a material event relating to the Company occurs or (2) prior to the expiration of the initial Lock-Up Period, the Company announces that it will release earnings results or becomes aware that material news or a material event will occur during the 16-day period beginning on the last day of the initial Lock-Up Period, then in each case the Lock-Up Period will be extended until the expiration of the 18-day period beginning on the date of release of the earnings results or the occurrence of the materials news or event, as applicable, unless the Representatives waive, in writing, such extension. The Company will provide the Representatives with notice of any announcement described in clause (2) of the preceding sentence that gives rise to an extension of the Lock-Up Period.

(m) *Listing of Securities.* The Company will use its best efforts to have the Offered Securities accepted for listing on the Nasdaq Global Select Market and maintain the listing of the Offered Securities on the Nasdaq Global Select Market.

(n) *Deposit of Shares.* The Company will, prior to the First Closing Date or the Additional Closing Date, as the case may be, deposit the Offered Shares with the Depositary in accordance with the provisions of the Deposit Agreement and otherwise comply with the Deposit Agreement so that ADSs will be issued by the Depositary against receipt of such Offered Shares and delivered to the Underwriters at the Closing Date or the Additional Closing Date, as the case may be.

(o) *Filing of Reports.* The Company, during the period when a prospectus (or, in lieu thereof, the notice referred to in Rule 173(a) under the Act) is required to be delivered under the Act in connection with the offer or sale of the Offered Securities, will file all reports and other documents required to be filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act and the Rules and Regulations within the time periods required thereby.

(p) *License of Trademarks.* Upon request of any Underwriter, the Company will furnish, or cause to be furnished, to such Underwriter an electronic version of the Company's trademarks, servicemarks and corporate logo for use on the website, if any, operated by such Underwriter for the purpose of facilitating the offering of the Offered Securities.

(q) *Judgment and Approval.* The Company agrees that (i) it will not attempt to avoid any judgment applied or denied to it in a court of competent jurisdiction outside the Cayman Islands; (ii) following the consummation of the offering of the Offered Securities, it will use its best efforts to obtain and maintain all approvals required in the Cayman Islands to pay and remit outside the Cayman Islands all dividends declared by the Company and payable on the Ordinary Shares, if any; and (iii) it will use its best efforts to obtain and maintain all approvals required in the Cayman Islands for the Company to acquire sufficient foreign exchange for the payment of dividends, if any, and all other relevant purposes.

(r) *Compliance with SAFE Rules and Regulations.* The Company will comply in all material respects with any applicable rules and regulations of the State Administration of Foreign Exchange (the "**SAFE Rules and Regulations**"), and will use its best efforts to cause its directors, officers, option holders and shareholders named in the Company's share register that are, or that are directly or indirectly owned or controlled by, PRC residents or PRC citizens, to comply in all material respects with the SAFE Rules and Regulations applicable to them in connection with the Company, including, without limitation, requesting each shareholder named in the Company's share register, option holder, director and officer that is, or is directly or indirectly owned or controlled by, a PRC resident or PRC citizen to complete any registration and other procedures required under applicable SAFE Rules and Regulations.

(s) *Interim Financial Statements.* The Company will furnish to the Representatives as early as practicable prior to the time of purchase and any additional time of purchase, as the case may be, but not later than two business days prior thereto, a copy of the latest available unaudited interim and monthly consolidated financial statements, if any, of the Company and the Controlled Entities which have been read by the Company's independent registered public accountants, as stated in their letter to be furnished pursuant to Section 7(a) hereof.

(t) *Accounting Controls.* The Company and its Controlled Entities will undertake measures to implement, by the time such systems are required by the Exchange Act, systems of “internal control over financial reporting” (as defined in Rule 13a-15(f) of the Exchange Act) that comply with the requirements of the Exchange Act and have been designed by, or under the supervision of, their respective principal executive and principal financial officers, or persons performing similar functions, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP, including, but not limited to, internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management’s general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. GAAP and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management’s general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(u) *Compliance with Laws.* The Company will comply with and will require the Company’s directors and executive officers, in their capacities as such, to comply with all applicable securities laws, rules and regulations, including, without limitation, the Sarbanes-Oxley Act.

(v) *OFAC.* The Company will not directly or indirectly use the proceeds of the Offered Securities hereunder, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(w) *Transfer Restrictions.* The Company will at all times maintain transfer restrictions (including the inclusion of legends in share certificates, as may be required) with respect to the Company’s Ordinary Shares which are subject to transfer restrictions pursuant to this Agreement and the Lock-Up Agreements entered into pursuant to Section 7(q) hereof and shall ensure compliance with such restrictions on transfer of restricted Ordinary Shares. The Company will retain all share certificates which are by their terms subject to transfer restrictions until such time as such transfer restrictions are no longer applicable to such securities.

(B) The Selling Shareholder and its controlling shareholder, Sohu, jointly and severally agrees with the Underwriters that:

(a) *Payment of Expenses.* The Selling Shareholder and Sohu will pay all expenses incident to the performance of their obligations under, and the consummation of the transactions contemplated by this Agreement, including (i) any stamp duties, capital duties and stock transfer taxes, if any, payable upon the sale of the Offered Securities by the Selling Shareholder to the Underwriters, (ii) the fees and disbursements of its local counsel and accountants, and (iii) to the extent applicable, any fees and expenses of the authorized agent for service of process in the State of New York, County of New York in any action arising out of or relating to this Agreement.

(b) *Taxes.* Each of the Selling Shareholder and Sohu, severally and jointly, will indemnify and hold harmless the Underwriters against any documentary, stamp or similar issue tax, including any interest and penalties, on the creation, issue and sale of the Offered Securities by the Selling Shareholder and on the execution and delivery of this Agreement by the Selling Shareholder and Sohu. All payments to be made by the Selling Shareholder and Sohu hereunder shall be made without withholding or deduction for or on account of any present or future taxes, duties or governmental charges whatsoever unless the Selling Shareholder, Sohu or the Company is compelled by law to deduct or withhold such taxes, duties or charges. In that event, the Selling Shareholder and Sohu shall pay such additional amounts as may be necessary in order that the net amounts received after such withholding or deduction shall equal the amounts that would have been received if no withholding or deduction had been made.



(c) *No Stabilization.* Neither the Selling Shareholder nor Sohu nor any director, officer, agent, employee, affiliate or person acting on behalf of the Selling Shareholder or Sohu will take, directly or indirectly, any action designed, or which will constitute or might reasonably be expected to cause or result in, under the Exchange Act or otherwise, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Offered Securities.

(d) *W-9/W-8 Form.* The Selling Shareholder and Sohu will procure delivery to the Representatives on or prior to the First Closing Date a properly completed and executed United States Treasury Department Form W-9 or applicable Form W-8 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof) of the Selling Shareholder.

(e) *Material Event.* The Selling Shareholder and Sohu will notify promptly the Company and the Representatives if, at any time prior to the date on which the distribution of the Offered Securities as contemplated herein and in the General Disclosure Package and Final Prospectus has been completed, as determined by the Representatives, the Selling Shareholder or Sohu has knowledge of the occurrence of any event relating to the Selling Shareholder or Sohu as a result of which the Final Prospectus or the Registration Statement, in each case as then amended or supplemented, would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein (except in the case of the Registration Statement), in the light of the circumstances under which they were made, not misleading.

(f) *Further Agreement.* The Selling Shareholder and Sohu will cooperate to the extent necessary to cause the Registration Statement or any post-effective amendment thereto to become effective at the earliest practical time and will do and perform all things to be done and performed under this Agreement prior to any Closing Date and to satisfy all conditions precedent of the Selling Shareholder or Sohu to the delivery of the Offered Securities and underlying Offered Shares to be sold by the Selling Shareholder pursuant to this Agreement.

(g) *Distribution of Information.* Prior to the expiration of the 25th day after the date hereof, Sohu will notify the Representatives at least five days in advance of any communication that it or any of its affiliates plans to have with any research analysts (as defined in NASD Rule 2711), and will not conduct such communication or otherwise distribute any written communication relating to this offering without the written consent of the Representatives.

6. *Free Writing Prospectuses.* Each of the Company, the Selling Shareholder and Sohu represents and agrees that, unless it obtains the prior consent of the Representatives, and each Underwriter represents and agrees that, unless it obtains the prior consent of the Company and the Representatives, it has not made and will not make any offer relating to the Offered Securities that would constitute an Issuer Free Writing Prospectus, or that would otherwise constitute a “free writing prospectus,” as defined in Rule 405, required to be filed with the Commission. Any such free writing prospectus consented to by the Company and the Representatives is hereinafter referred to as a “Permitted Free Writing Prospectus.” Each of the Company, the Selling Shareholder and Sohu represents that it has treated and agrees that it will treat each Permitted Free Writing Prospectus as an “issuer free writing prospectus,” as defined in Rule 433, and has complied and will comply with the requirements of Rules 164 and 433 applicable to any Permitted Free Writing Prospectus, including timely Commission filing where required, legending and record keeping. The Company represents that it has satisfied and agrees that it will satisfy the conditions in Rule 433 to avoid a requirement to file with the Commission any electronic road show.

7. *Conditions of the Obligations of the Underwriters.* The obligations of the several Underwriters to purchase and pay for the Firm Securities on the First Closing Date and the Optional Securities to be purchased on each Optional Closing Date will be subject to the accuracy of the representations and warranties of the Company, the Selling Shareholder and Sohu herein (as though made on such Closing Date), to the accuracy of the statements of Company officers or those of the Selling Shareholder or Sohu, as the case may be, made pursuant to the provisions hereof, to the performance by the Company, the Selling Shareholder or Sohu of their respective obligations hereunder and to the following additional conditions precedent:

(a) *Accountants' Comfort Letter.* The Representatives shall have received letters, dated, respectively, the date hereof and each Closing Date, from PricewaterhouseCoopers Zhong Tian CPAs Limited Company in form and substance satisfactory to the Representatives, together with signed or reproduced copies of such letter for each of the other Underwriters containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement, the General Disclosure Package and the Final Prospectus.

(b) *Effectiveness of Registration Statement.* The Registration Statement, the ADS Registration Statement and the Exchange Act Registration Statement shall have become effective. If the Effective Time of the Additional Registration Statement (if any) is not prior to the execution and delivery of this Agreement, such Effective Time shall have occurred not later than 10:00 p.m., U.S. Eastern time, on the date of this Agreement or, if earlier, the time the Final Prospectus is finalized and distributed to any Underwriter, or shall have occurred at such later time as shall have been consented to by the Representatives. The Final Prospectus shall have been filed with the Commission in accordance with the Rules and Regulations and Section 5(A)(a) hereof. Prior to such Closing Date, no stop order suspending the effectiveness of a Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or, to the knowledge of the Company or the Representatives, shall be contemplated by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Underwriters. A prospectus containing the Rule 430A Information shall have been filed with the Commission in the manner and within the time frame required by Rule 424(b) without reliance on Rule 424(b)(8) or a post-effective amendment providing such information shall have been filed and declared effective in accordance with the requirements of Rule 430A.

(c) *No Material Adverse Change.* No event or condition of a type described in Section 2(A)(oo) hereof shall have occurred or shall exist, which event or condition is not described in the Registration Statement, General Disclosure Package and Final Prospectus and the effect of which in the sole judgment of the Representatives makes it impracticable or inadvisable to proceed with the offering, sale or delivery of the Offered Securities on the Closing Date or the Additional Closing Date, as the case may be, on the terms and in the manner contemplated by this Agreement.

(d) *Adverse Developments in PRC Mergers and Acquisitions Rules.* There shall not be any adverse legislative or regulatory developments in the PRC, including but not limited to the PRC Mergers and Acquisitions Rules and Related Clarifications, which, in the sole judgment of the Representatives after consultation with the Company, would make it inadvisable to proceed with the public offering or the delivery of the Offered Securities at the First Closing Date or the Additional Closing Date, as the case may be, on the terms and in the manner contemplated in this Agreement.

(e) *Opinion of United States Counsel for the Company.* The Representatives and the Depository shall have received an opinion or opinions from Goulston & Storrs, P.C., United States counsel for the Company, dated such Closing Date, in form and substance satisfactory to the Representatives, substantially to the effect set forth in Exhibit A hereto.

(f) *Opinion of United States Counsel for the Underwriters.* The Representatives shall have received an opinion or opinions from Davis Polk & Wardwell, United States counsel for the Underwriters, dated such Closing Date, with respect to such matters as the Representatives may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(g) *Opinion of PRC Counsel for the Company.* The Company shall have received an opinion from Commerce & Finance Law Offices, PRC counsel for the Company, dated such Closing Date, in form and substance satisfactory to the Representatives, substantially to the effect set forth in Exhibit B hereto. A copy of such opinion shall have been provided to the Representatives and Depositary with consent from such counsel.

(h) *Opinion of PRC Counsel for Underwriters.* The Representatives shall have received an opinion from King & Wood, PRC counsel for the Underwriters, dated such Closing Date, with respect to such matters as the Representatives may require, and the Company shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(i) *Opinion of Cayman Islands Counsel for the Company.* The Representatives and the Depositary shall have received an opinion from Campbells, Cayman Islands counsel for the Company, dated such Closing Date, in form and substance satisfactory to the Representatives, in form and substance satisfactory to the Representatives, substantially to the effect set forth in Exhibit C hereto.

(j) *Opinion of Hong Kong Counsel for Changyou.com (HK) Limited.* The Representatives shall have received an opinion from Li & Partners, Hong Kong counsel for Changyou.com (HK) Limited, dated such Closing Date, in form and substance satisfactory to the Representatives.

(k) *Opinion of Cayman Islands Counsel for the Selling Shareholder.* The Representatives shall have received an opinion from Campbells, Cayman Islands counsel for the Selling Shareholder, dated such Closing Date, in form and substance satisfactory to the Representatives.

(l) *Opinion of U.S. Counsel for the Selling Shareholder.* The Representatives shall have received an opinion from Goulston & Storrs, P.C., United States counsel for the Selling Shareholder, dated such Closing Date, in form and substance satisfactory to the Representatives.

(m) *Opinion of U.S. Counsel for Sohu.* The Representatives shall have received an opinion from Goulston & Storrs, P.C., United States Counsel for Sohu, dated such Closing Date, in form and substance satisfactory to the Representatives.

(n) *Opinion of U.S. Counsel for AmazGame U.S.* The Representatives shall have received an opinion from Goulston & Storrs, P.C., United States Counsel for AmazGame U.S., dated such Closing Date, in form and substance satisfactory to the Representatives.

(o) *Officers' Certificate.* The Representatives shall have received a certificate, dated such Closing Date, of an executive officer of the Company and a principal financial or accounting officer of the Company in which such officers shall state that: the representations and warranties of the Company in this Agreement are true and correct; the Company has complied with all

agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to such Closing Date; no stop order suspending the effectiveness of any Registration Statement has been issued and no proceedings for that purpose have been instituted or, to the best of their knowledge and after reasonable investigation, are contemplated by the Commission; the Additional Registration Statement (if any) satisfying the requirements of subparagraphs (1) and (3) of Rule 462(b) was timely filed pursuant to Rule 462(b), including payment of the applicable filing fee in accordance with Rule 111(a) or (b) of Regulation S-T of the Commission; and, subsequent to the date of the most recent financial statements in the Registration Statement, General Disclosure Package and Final Prospectus, there has been no material adverse change, nor any development or event involving a prospective material adverse change, in the condition (financial or otherwise), results of operations, business, properties or prospects of the Company and its Controlled Entities taken as a whole except as set forth in the Registration Statement, General Disclosure Package and Final Prospectus or as described in such certificate.

(p) *Secretary's Certificate.* The Representatives shall have received a certificate, dated such Closing date, of the secretary of the Company, with respect to such matters as the Representatives may reasonably require.

(q) *Selling Shareholder's Certificate.* The Representative shall have received a certificate, dated such Closing Date, of an Attorney-in-Fact of the Selling Shareholder in which the Attorney-in-Fact shall state that: the representations and warranties of the Selling Shareholder in this Agreement are true and correct as of such Closing Date; and that the Selling Shareholder has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to such Closing Date.

(r) *Sohu's Certificate.* The Representatives shall have received a certificate, dated such Closing Date, of an officer of Sohu, in which such officer shall state that: the representations and warranties of Sohu in this Agreement are true and correct as of such Closing Date; and Sohu has complied with all agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to such Closing Date.

(s) *Lock-up Agreements.* On or prior to the date hereof, the Representatives shall have received lock-up agreements, substantially to the effect set forth in Exhibit D hereto, from each of the directors, officers, existing shareholders of the Company and each key employee of the Company who owns restricted share units that are exercisable within 180 days from the date of this Agreement.

(t) *Execution of Deposit Agreement.* The Company and the Depositary shall have executed and delivered the Deposit Agreement and the Deposit Agreement shall be in full force and effect and the Company and the Depositary shall have taken all actions necessary to permit the deposit of the Offered Shares and the issuance of the Offered Securities in accordance with the Deposit Agreement.

(u) *Depositary's Certificates.* The Depositary shall have furnished or caused to be furnished to you at such Closing Date, certificates satisfactory to you evidencing the deposit with it of the Offered Shares being so deposited against issuance of ADRs evidencing the Offered Securities to be delivered by the Company at such Closing Date, and the execution, countersignature (if applicable), issuance and delivery of ADRs evidencing such Offered Securities pursuant to the Deposit Agreement and such other matters related thereto as the Representatives may reasonably request.

(v) *Opinion of Depositary's Counsel.* The Representatives shall have received an opinion from Emmet, Marvin & Martin, counsel for the Depositary, in form and substance satisfactory to the Representatives.

(w) *No Legal Impediment to Issuance.* No action shall have been taken and no statute, rule, regulation or order shall have been enacted, adopted or issued by any federal, state or foreign governmental or regulatory authority that would, as of such Closing Date, prevent the issuance or sale of the Offered Securities; and no injunction or order of any federal, state or foreign court shall have been issued that would, as of such Closing Date, prevent the issuance or sale of the Offered Securities.

(x) *Additional Documents.* On or prior to such Closing Date, the Representatives shall have been furnished with such documents and opinions as they may require for the purpose of enabling the Underwriters to pass upon the issuance and sale of the Offered Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company and the Selling Shareholder in connection with the issuance and sale of the Offered Securities as herein contemplated shall be reasonably satisfactory in form and substance to the Representatives.

(y) *Exchange Listing.* The Offered Securities shall have been approved to be listed on the Nasdaq Global Select Market.

(z) *Form W-9/W-8.* On or prior to the First Closing Date, the Representative shall have received from the Custodian United States Treasury Department Form W-9 or the applicable Form W-8 (or other applicable form or statement specified by Treasury Department regulations in lieu thereof) properly completed and executed by the Selling Shareholder.

(aa) *DTC Settlement.* On or prior to the First Closing Date, the Offered Securities shall be eligible for clearance and settlement through the facilities of DTC.

(bb) *Filing of Amendments.* No Issuer Free Writing Prospectus, Prospectus or amendment or supplement to the Registration Statement, the ADS Registration Statement or the Prospectus shall have been filed to which the Representatives object in writing.

(cc) *Payment of Commission Fees.* The Company shall have paid the required Commission filing fees relating to the Offered Securities in such amount and within the time frame provided in the Act and the Rule 456(b)(1) thereunder.

(dd) *No FINRA Objection.* FINRA shall not have raised any objection with respect to the fairness or reasonableness of the underwriting or other arrangements of the transactions contemplated hereby.

The Company and the Selling Shareholder will furnish the Representatives with such conformed copies of such opinions, certificates, letters and documents as the Representatives reasonably request. The Representatives may in their sole discretion waive on behalf of the Underwriters compliance with any conditions to the obligations of the Underwriters hereunder, whether in respect of an Optional Closing Date or otherwise.

If any condition specified in this Section shall not have been fulfilled or waived when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of Optional Securities on a Optional Closing Date which is after the First Closing Date, the obligations of the several Underwriters to purchase the relevant Option Securities shall be deemed terminated by the Company and the Selling Shareholder at any time at or prior to the First Closing Date or such Optional Closing Date, as the case may be unless as otherwise provided, and such termination shall be without liability of any party to any other party except as provided in Section 11.

8. *Indemnification and Contribution.* (a) *Indemnification of Underwriters by the Company.* The Company will indemnify and hold harmless each Underwriter, its partners, members, directors, officers, employees, agents, affiliates and each person, if any, who controls such Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act (each, an “**Indemnified Party**”), against any and all losses, claims, damages or liabilities, joint or several, to which such Indemnified Party may become subject, under the Act, the Exchange Act, other Federal or state statutory law or regulation or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any part of any Registration Statement at any time, any Statutory Prospectus as of any time, the Final Prospectus or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Indemnified Party for any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending against any loss, claim, damage, liability, action, litigation, investigation or proceeding whatsoever (whether or not such Indemnified Party is a party thereto), whether threatened or commenced, and in connection with the enforcement of this provision with respect to any of the above as such expenses are incurred; *provided*, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives specifically for use therein, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in subsection 8(c) below.

(b) *Indemnification of Underwriters by the Selling Shareholder and Sohu.* The Selling Shareholder and Sohu, jointly and severally, will indemnify and hold harmless each Indemnified Party against any and all losses, claims, damages or liabilities, joint or several, to which such Indemnified Party may become subject, under the Act, the Exchange Act, other Federal or state statutory law or regulation or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any part of any Registration Statement at any time, any Statutory Prospectus as of any time, the Final Prospectus or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Indemnified Party for any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending against any loss, claim, damage, liability, action, litigation, investigation or proceeding whatsoever (whether or not such Indemnified Party is a party thereto), whether threatened or commenced, and in connection with the enforcement of this provision with respect to any of the above as such expenses are incurred; *provided*, however, that the Selling Shareholder and Sohu will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement in or omission or alleged omission from any of such documents in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representatives specifically for use therein, it being understood and agreed that the only such information furnished by any Underwriter consists of the information described as such in subsection 8(c) below; *provided further* that, none of the Indemnified Parties shall be entitled to seek indemnification under this Section 8(b) from the Selling Stockholder or Sohu unless both of the following conditions are met: (i) the Indemnified Party shall first have sought indemnity from the Company in writing under Section 8(a) and (ii) the Company has not satisfied such request for indemnification in full within 30 days of written notification. Notwithstanding the foregoing, an Indemnified Party shall not be required to make an initial demand on the Company if the Company has filed for bankruptcy protection,

announced that it is insolvent, received a going-concern qualification from its independent auditors or announced that there is considerable doubt that it will be able to continue as a going concern.

(c) *Indemnification of the Company, the Selling Shareholder and Sohu.* Each Underwriter will severally and not jointly indemnify and hold harmless the Company, each of its directors and each of its officers who signs a Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, the Selling Shareholder and Sohu (each, an “**Underwriter Indemnified Party**”), against any losses, claims, damages or liabilities to which such Underwriter Indemnified Party may become subject, under the Act, the Exchange Act, other Federal or state statutory law or regulation or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any part of any Registration Statement at any time, any Statutory Prospectus as of any time, the Final Prospectus, or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or the alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representatives specifically for use therein, and will reimburse any legal or other expenses reasonably incurred by such Underwriter Indemnified Party in connection with investigating or defending against any such loss, claim, damage, liability, action, litigation, investigation or proceeding whatsoever (whether or not such Underwriter Indemnified Party is a party thereto), whether threatened or commenced, based upon any such untrue statement or omission, or any such alleged untrue statement or omission as such expenses are incurred, it being understood and agreed that the only such information furnished by any Underwriter consists of the following information in the Final Prospectus furnished on behalf of each Underwriter: the concession and reallowance figures appearing in the fourth paragraph and sales to discretionary accounts appearing in the fifteenth paragraph and the information discussing possible stabilization measures appearing in the seventeenth and eighteenth paragraphs under the caption “Underwriting.”

(d) *Actions against Parties; Notification.* Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under subsection (a), (b) or (c) above, notify the indemnifying party of the commencement thereof; but the failure to notify the indemnifying party shall not relieve it from any liability that it may have under subsection (a), (b) or (c) above except to the extent that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure; and provided further that the failure to notify the indemnifying party shall not relieve it from any liability that it may have to an indemnified party otherwise than under subsection (a), (b) or (c) above. In case any such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement (i) includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action and (ii) does not include a statement as to, or an admission of, fault, culpability or a failure to act by or on behalf of an indemnified party.

(e) *Contribution.* If the indemnification provided for in this Section is unavailable or insufficient to hold harmless an indemnified party under subsection (a), (b) or (c) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in subsection (a), (b) or (c) above (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, the Selling Shareholder and Sohu on the one hand and the Underwriters on the other from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, the Selling Shareholder and Sohu on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities as well as any other relevant equitable considerations. The relative benefits received by the Company, the Selling Shareholder and Sohu on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company, the Selling Shareholder and Sohu bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, the Selling Shareholder and Sohu or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (e) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any action or claim which is the subject of this subsection (e). Notwithstanding the provisions of this subsection (e), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (e) to contribute are several in proportion to their respective underwriting obligations and not joint. The Company, the Selling Shareholder, Sohu and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 8(e) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 8(e).

9. *Termination.* The Representatives may terminate this Agreement, by notice to the Company and the Selling Shareholder, at any time at or prior to the First Closing Date, if there has been (i) any change, or any development or event involving a prospective change, in the condition (financial or otherwise), results of operations, business, properties or prospects of the Company and its Controlled Entities taken as a whole which, in the judgment of the Representatives, is material and adverse and makes it impractical or inadvisable to market the Offered Securities; (ii) any downgrading in the rating of any debt securities of the Company by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g)), or any public announcement that any such organization has under surveillance or review its rating of any debt securities of the Company (other than an announcement with positive implications of a possible upgrading, and no implication of a possible downgrading, of such rating); (iii) any change, or any change or development involving a prospective change, in the United States, Cayman Islands, PRC or international financial, political or economic conditions or currency exchange rates or exchange controls the effect of which is such as to make it, in the judgment of the Representatives, impractical to market or to enforce contracts for the sale of the Offered Securities, whether in the primary market



or in respect of dealings in the secondary market; (iv) any suspension or material limitation of trading in securities generally on the New York Stock Exchange, the Nasdaq Global Select Market, or any setting of minimum or maximum prices for trading on such exchange; (v) any suspension of trading of any securities of the Company on any exchange or in the over-the-counter market; (vi) any banking moratorium declared by any U.S. federal, New York, Cayman Islands or PRC authorities; (vii) any major disruption of settlements of securities, payment or clearance services in the United States, Cayman Islands, PRC or any other country where such securities are listed; or (viii) any attack on, outbreak or escalation of hostilities or act of terrorism involving the United States, Cayman Islands or PRC, any declaration of war by Congress or any other national or international calamity or emergency if, in the judgment of the Representatives, the effect of any such attack, outbreak, escalation, act, declaration, calamity or emergency is such as to make it inadvisable to market the Offered Securities or to enforce contracts for the sale of the Offered Securities.

10. *Default of Underwriters.* If any Underwriter or Underwriters default in their obligations to purchase Offered Securities hereunder on either the First or any Optional Closing Date and the aggregate number of Offered Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase does not exceed 10% of the total number of Offered Securities that the Underwriters are obligated to purchase on such Closing Date, the Representatives may make arrangements satisfactory to the Company, the Selling Shareholder and Sohu for the purchase of such Offered Securities by other persons, including any of the Underwriters, but if no such arrangements are made by such Closing Date, the non-defaulting Underwriters shall be obligated severally, in proportion to their respective commitments hereunder, to purchase the Offered Securities that such defaulting Underwriters agreed but failed to purchase on such Closing Date. If any Underwriter or Underwriters so default and the aggregate number of Offered Securities with respect to which such default or defaults occur exceeds 10% of the total number of Offered Securities that the Underwriters are obligated to purchase on such Closing Date and arrangements satisfactory to the Representatives, the Company, the Selling Shareholder and Sohu for the purchase of such Offered Securities by other persons are not made within 24 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Underwriter, the Company, the Selling Shareholder or Sohu, except as provided in Section 11 (provided that if such default occurs with respect to Optional Securities after the First Closing Date, this Agreement will not terminate as to the Firm Securities or any Optional Securities purchased prior to such termination). As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section 10. Nothing herein will relieve a defaulting Underwriter from liability for its default.

11. *Survival of Certain Representations and Obligations.* The respective indemnities, agreements, representations, warranties and other statements of the Company, the Selling Shareholder and Sohu, or their respective officers, and of the several Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation, or statement as to the results thereof, made by or on behalf of any Underwriter, the Company, the Selling Shareholder, Sohu, or any of their respective representatives, officers or directors or any controlling person, and will survive delivery of and payment for the Offered Securities. If the purchase of the Offered Securities by the Underwriters is not consummated for any reason other than solely because of the termination of this Agreement pursuant to Section 10 hereof, the Company will reimburse the Underwriters for all out-of-pocket expenses (including fees and disbursements of counsel) reasonably incurred by them in connection with the offering of the Offered Securities, and the respective obligations of the Company, the Selling Shareholder, Sohu and the Underwriters pursuant to Section 8 hereof shall remain in effect. In addition, if any Offered Securities have been purchased hereunder, the representations and warranties in Section 2 and all obligations under Section 5 shall also remain in effect.

12. *Notices.* All communications hereunder will be in writing and, if sent to the Underwriters, will be mailed, delivered or telegraphed and confirmed to the Representatives, Credit Suisse Securities (USA) LLC, Eleven Madison Avenue, New York, N.Y. 10010-3629, Attention: LCD-IBD, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Four World Financial Center, 250 Vesey Street, New York, N.Y. 10080, Attention: Equity Capital Markets, or, if sent to the Company, the Selling Shareholder or Sohu, will

be mailed, delivered or telegraphed and confirmed to it at East Tower, Jin Yan Building, No. 29 Shijingshan Road, Shijingshan District, Beijing 100043, People's Republic of China, Attention: Tao Wang; *provided*, however, that any notice to an Underwriter pursuant to Section 8 will be mailed, delivered or telegraphed and confirmed to such Underwriter.

13. *Successors*. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors and controlling persons referred to in Section 8, and no other person will have any right or obligation hereunder.

14. *Representation of Underwriters*. The Representatives will act for the several Underwriters in connection with this offering, and any action under this Agreement taken by the Representatives jointly or by either Representative individually will be binding upon all the Underwriters.

15. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

16. *Absence of Fiduciary Relationship*. The Company, the Selling Shareholder and Sohu acknowledge and agree that:

(a) *No Other Relationship*. The Representatives have been retained solely to act as underwriters in connection with the sale of Offered Securities and that no fiduciary, advisory or agency relationship between the Company, the Selling Shareholder and Sohu on the one hand, and the Representatives on the other, has been created in respect of any of the transactions contemplated by this Agreement or the Final Prospectus, irrespective of whether the Representatives have advised or are advising the Company, the Selling Shareholder or Sohu on other matters;

(b) *Arm's Length Negotiations*. The price of the Offered Securities set forth in this Agreement was established by the Company, the Selling Shareholder and Sohu following discussions and arm's-length negotiations with the Representatives and the Company, the Selling Shareholder and Sohu are capable of evaluating and understanding and understand and accept the terms, risks and conditions of the transactions contemplated by this Agreement;

(c) *Absence of Obligation to Disclose*. The Company, the Selling Shareholder and Sohu have been advised that the Representatives and their affiliates are engaged in a broad range of transactions which may involve interests that differ from those of the Company, the Selling Shareholder and Sohu and that the Representatives have no obligation to disclose such interests and transactions to the Company, the Selling Shareholder or Sohu by virtue of any fiduciary, advisory or agency relationship; and

(d) *Waiver*. The Company, the Selling Shareholder and Sohu waive, to the fullest extent permitted by law, any claims any of them may have against the Representatives for breach of fiduciary duty or alleged breach of fiduciary duty and agree that the Representatives shall have no liability (whether direct or indirect) to the Company, the Selling Shareholder or Sohu in respect of such a fiduciary duty claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, the Selling Shareholder or Sohu, including their respective stockholders, employees or creditors, if applicable.

**17. *Applicable Law.* This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.**

The Company, the Selling Shareholder and Sohu hereby submit to the non-exclusive jurisdiction of the Federal and state courts in the Borough of Manhattan in The City of New York in any suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. The Company, the Selling Shareholder and Sohu irrevocably and unconditionally waive any objection to the laying of venue of any suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby in Federal and state courts in the Borough of Manhattan in The City of New York and irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such suit or proceeding in any such court has been brought in an inconvenient forum. The Company, the Selling Shareholder and Sohu irrevocably appoint CT Corporation System at 111 Eighth Avenue, New York, NY 10011, U.S.A. as their respective authorized agent in the Borough of Manhattan in The City of New York upon which process may be served in any such suit or proceeding, and agree that service of process upon such agent, and written notice of said service to the Company, the Selling Shareholder or Sohu by the person serving the same to the address provided in Section 12, shall be deemed in every respect effective service of process upon the Company, the Selling Shareholder or Sohu in any such suit or proceeding. The Company, the Selling Shareholder and Sohu further agree to take any and all action as may be necessary to maintain such designation and appointment of such agent in full force and effect for a period of seven years from the date of this Agreement.

The obligation of the Company, the Selling Shareholder and Sohu pursuant to this Agreement in respect of any sum due to any Underwriter shall, notwithstanding any judgment in a currency other than United States dollars, not be discharged until the first business day, following receipt by such Underwriter of any sum adjudged to be so due in such other currency, on which (and only to the extent that) such Underwriter may in accordance with normal banking procedures purchase United States dollars with such other currency; if the United States dollars so purchased are less than the sum originally due to such Underwriter hereunder, the Company, the Selling Shareholder and Sohu agree, as a separate obligation and notwithstanding any such judgment, to indemnify such Underwriter against such loss. If the United States dollars so purchased are greater than the sum originally due to such Underwriter hereunder, such Underwriter agrees to pay to the Company, the Selling Shareholder and Sohu an amount equal to the excess of the dollars so purchased over the sum originally due to such Underwriter hereunder.

(Signature Page Follows)

If the foregoing is in accordance with the Representatives' understanding of our agreement, kindly sign and return to the Company one of the counterparts hereof, whereupon it will become a binding agreement among the Company, the Selling Shareholder, Sohu and the several Underwriters in accordance with its terms.

Very truly yours,

CHANGYOU.COM LIMITED

By: /s/ CHANGYOU.COM LIMITED  
Name:  
Title:

SOHU.COM (GAME) LIMITED

By: Sohu.com Limited, Director

By: /s/ Sohu.com Limited  
Name:  
Title:

SOHU.COM INC.

By: /s/ SOHU.COM INC.  
Name:  
Title:

The foregoing Underwriting Agreement is hereby confirmed and accepted as of the date first above written.

Acting on behalf of themselves and as the Representatives of the several Underwriters

CREDIT SUISSE SECURITIES (USA) LLC

By: /s/ CREDIT SUISSE SECURITIES (USA) LLC  
Name:  
Title:

MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED

By: /s/ MERRILL LYNCH, PIERCE, FENNER & SMITH  
INCORPORATED  
Name:  
Title:

SCHEDULE A

<u>Underwriter</u>	<u>Number of Firm Securities</u>	<u>Maximum Number of Optional Securities</u>
Credit Suisse Securities (USA) LLC	2,231,486	334,723
Credit Suisse (Hong Kong) Limited	656,013	98,402
Merrill Lynch, Pierce, Fenner & Smith Incorporated	2,405,369	360,805
Merrill Lynch Far East Limited	707,131	106,070
Citigroup Global Markets Inc	869,410	130,412
Citigroup Global Markets Limited	255,590	38,339
Susquehanna Financial Group, LLLP	375,001	56,250
Total	<u>7,500,000</u>	<u>1,125,000</u>

Schedule A

**SCHEDULE B**

	<u>Number of Firm Securities</u>	<u>Maximum Number of Optional Securities</u>
The Company	3,750,000	0
The Selling Shareholder	3,750,000	1,125,000
Total	<u>7,500,000</u>	<u>1,125,000</u>

Schedule B

## SCHEDULE C

### 1. General Use Free Writing Prospectuses (included in the General Disclosure Package)

“General Use Issuer Free Writing Prospectus” includes the following document:

1. The issuer free writing prospectus dated March 30, 2009 relating to certain amendments to the Registration Statement, filed with the SEC on the same date.

### 2. Other Information Included in the General Disclosure Package

The following information is also included in the General Disclosure Package:

#### CHANGYOU.COM LIMITED

7,500,000 American Depositary Shares, Representing 15,000,000 Class A Ordinary Shares, Par Value \$0.01 Per Share

Issuer	Changyou.com Limited
Ticker	“CYOU” / Nasdaq
Initial Public Offering Price	\$16.00 per ADS
ADSs Offered by the Issuer	3,750,000 ADSs
ADSs Offered by the Selling Shareholder	3,750,000 ADSs
Over-allotment Option	1,125,000 ADSs from the Selling Shareholder
Trade Date	April 2, 2009
Settlement and Delivery Date	April 7, 2009
CUSIP	15911M 107
Joint Bookrunners	Credit Suisse & Merrill Lynch
Co-Managers	Citi & Susquehanna

The ADSs will be sold pursuant to an effective registration statement that has been previously filed with the Securities and Exchange Commission.

This communication shall not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the securities in any state in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities law of any such state.

You can request copies of the prospectus relating to this offering by calling toll-free: Credit Suisse (1-800-221-1037) or Merrill Lynch & Co. (1-866-500-5408) (calling these numbers is not toll free outside the United States).

Schedule C





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: August 7, 2009

/s/ Charles Zhang  
Chief Executive Officer and Chairman of the Board of Directors

I, Carol Yu, 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: August 7, 2009

/s/ Carol Yu

Co-President and Chief Financial Officer

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 June 30, 2009 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 June 30, 2009 and results of operations of the Company for the three months ended June 30, 2009.

/s/ Charles Zhang  
Charles Zhang, Chief Executive Officer and Chairman of the  
Board of Directors  
August 7, 2009

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 June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carol Yu, Co-President and 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 June 30, 2009 and results of operations of the Company for the three months ended June 30, 2009.

/s/ Carol Yu

Carol Yu, Co-President and Chief Financial Officer

August 7, 2009