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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-30961

Sohu.com Inc.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Delaware
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

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

**Level 18, SOHU.com Media Plaza
Block 3, No. 2 Kexueyuan South Road, Haidian District
Beijing 100190
People's Republic of China
(011) 8610-6272-6666**

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

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

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

<u>Class</u>	<u>Outstanding at June 30, 2013</u>
Common stock, \$.001 par value	38,278,691

SOHU.COM INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SOHU.COM INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)
(In thousands, except par value)

	As of	
	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 770,542	\$ 833,535
Restricted time deposits	169,324	116,140
Short-term investments	97,123	54,901
Investments in debt securities	80,923	79,548
Accounts receivable, net	138,612	98,398
Prepaid and other current assets	87,677	55,761
Total current assets	<u>1,344,201</u>	<u>1,238,283</u>
Fixed assets, net	496,359	178,951
Goodwill	161,409	159,215
Intangible assets, net	67,181	70,054
Restricted time deposits	173,190	130,699
Prepaid non-current assets	10,296	291,643
Other assets	16,852	13,792
Total assets	<u>\$2,269,488</u>	<u>\$ 2,082,637</u>
LIABILITIES		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities (“VIEs”) without recourse to the Company of \$9,449 and \$6,958, respectively, as of June 30, 2013 and December 31, 2012)	\$ 81,585	\$ 67,934
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of \$43,320 and \$53,034, respectively, as of June 30, 2013 and December 31, 2012)	145,801	117,029
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of \$47,505 and \$54,150, respectively, as of June 30, 2013 and December 31, 2012)	90,488	89,687
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$3,736 and \$4,940, respectively, as of June 30, 2013 and December 31, 2012)	72,583	61,722
Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of \$13,351 and \$14,191, respectively, as of June 30, 2013 and December 31, 2012)	35,882	33,897
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$23 and \$83, respectively, as of June 30, 2013 and December 31, 2012)	15,395	11,878
Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both June 30 and December 31, 2012)	164,000	113,000
Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of \$16,102 and \$33,074, respectively, as of June 30, 2013 and December 31, 2012)	49,070	63,352
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of nil as of both June 30, 2013 and December 31, 2012)	0	76
Total current liabilities	<u>654,804</u>	<u>558,575</u>
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of \$1,215 and nil, respectively, as of June 30, 2013 and December 31, 2012)	7,423	12,684
Long-term bank loans (including long-term bank loans of the consolidated VIEs without recourse to the Company of nil as of both June 30, 2013 and December 31, 2012)	158,963	126,353
Deferred tax liabilities (including deferred tax liabilities of the consolidated VIEs without recourse to the Company of \$3,450 and \$3,846, respectively, as of June 30, 2013 and December 31, 2012)	7,571	7,998
Total long-term liabilities	<u>173,957</u>	<u>147,035</u>
Total liabilities	<u>828,761</u>	<u>705,610</u>
Commitments and contingencies		
MEZZANINE EQUITY	0	61,810
SHAREHOLDERS' EQUITY		
Sohu.com Inc. shareholders' equity:		
Common stock: \$0.001 par value per share (75,400 shares authorized; 38,279 shares and 38,089 shares, respectively, issued and outstanding as of June 30, 2013 and December 31, 2012)	44	44
Additional paid-in capital	375,322	364,092
Treasury stock (5,889 shares)	(143,858)	(143,858)
Accumulated other comprehensive income	99,413	79,542
Retained earnings	830,460	784,403
Total Sohu.com Inc. shareholders' equity	<u>1,161,381</u>	<u>1,084,223</u>
Noncontrolling interest	279,346	230,994
Total shareholders' equity	<u>1,440,727</u>	<u>1,315,217</u>
Total liabilities, mezzanine equity and shareholders' equity	<u>\$2,269,488</u>	<u>\$ 2,082,637</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Online advertising:				
Brand advertising	\$ 100,191	\$ 69,312	\$ 180,428	\$ 130,280
Search and others	46,171	28,763	82,223	50,400
Subtotal of online advertising revenues	<u>146,362</u>	<u>98,075</u>	<u>262,651</u>	<u>180,680</u>
Online games	168,295	135,956	335,716	261,924
Mobile	15,313	15,598	29,086	28,949
Others	8,934	6,098	19,047	10,778
Total revenues	<u>338,904</u>	<u>255,727</u>	<u>646,500</u>	<u>482,331</u>
Cost of revenues:				
Online advertising:				
Brand advertising	51,556	50,963	96,434	87,855
Search and others	24,498	16,192	45,290	29,320
Subtotal of cost of online advertising revenues	<u>76,054</u>	<u>67,155</u>	<u>141,724</u>	<u>117,175</u>
Online games	22,981	17,891	45,630	33,722
Mobile	8,963	10,208	18,235	19,061
Others	5,647	4,590	11,585	9,408
Total cost of revenues	<u>113,645</u>	<u>99,844</u>	<u>217,174</u>	<u>179,366</u>
Gross profit	<u>225,259</u>	<u>155,883</u>	<u>429,326</u>	<u>302,965</u>
Operating expenses:				
Product development	63,361	43,340	115,180	81,933
Sales and marketing	71,678	48,999	130,401	87,653
General and administrative	25,772	17,508	48,361	35,302
Impairment of intangible assets via acquisition of Businesses	0	2,906	0	2,906
Total operating expenses	<u>160,811</u>	<u>112,753</u>	<u>293,942</u>	<u>207,794</u>
Operating profit	<u>64,448</u>	<u>43,130</u>	<u>135,384</u>	<u>95,171</u>
Other income	1,532	1,818	4,063	3,431
Interest income	5,498	7,223	12,199	13,718
Exchange difference	(1,984)	45	(3,969)	(598)
Income before income tax expense	69,494	52,216	147,677	111,722
Income tax expense	16,251	18,467	36,269	37,154
Net income	<u>53,243</u>	<u>33,749</u>	<u>111,408</u>	<u>74,568</u>
Less: Net income attributable to the mezzanine-classified noncontrolling interest shareholders	7,112	1,095	17,780	2,206
Net income attributable to the noncontrolling interest shareholders	<u>24,505</u>	<u>19,872</u>	<u>47,571</u>	<u>36,472</u>
Net income attributable to Sohu.com Inc.	<u>\$ 21,626</u>	<u>\$ 12,782</u>	<u>\$ 46,057</u>	<u>\$ 35,890</u>
Net income	53,243	33,749	111,408	74,568
Other comprehensive income /(loss): Foreign currency translation adjustment, net of tax	20,429	(5,455)	25,232	(3,668)
Comprehensive income	<u>73,672</u>	<u>28,294</u>	<u>136,640</u>	<u>70,900</u>
Less: Comprehensive income attributable to the mezzanine-classified noncontrolling interest shareholders	7,112	1,095	17,780	2,206
Comprehensive income attributable to noncontrolling interest shareholders	<u>28,800</u>	<u>19,045</u>	<u>52,932</u>	<u>35,970</u>
Comprehensive income attributable to Sohu.com Inc.	<u>37,760</u>	<u>8,154</u>	<u>65,928</u>	<u>32,724</u>
Basic net income per share attributable to Sohu.com Inc.	<u>\$ 0.57</u>	<u>\$ 0.34</u>	<u>\$ 1.21</u>	<u>\$ 0.95</u>
Shares used in computing basic net income per share attributable to Sohu.com Inc.	<u>38,259</u>	<u>38,002</u>	<u>38,214</u>	<u>38,043</u>
Diluted net income per share attributable to Sohu.com Inc.	<u>\$ 0.56</u>	<u>\$ 0.28</u>	<u>\$ 1.16</u>	<u>\$ 0.81</u>
Shares used in computing diluted net income per share attributable to Sohu.com Inc.	<u>38,492</u>	<u>38,347</u>	<u>38,461</u>	<u>38,416</u>

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>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net income	\$ 111,408	\$ 74,568
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	23,833	17,959
Share-based compensation expense	2,325	6,359
Amortization of intangible assets and purchased video content in prepaid expense	32,309	34,395
Impairment of purchased video content	0	15,275
Impairment of other intangible assets	1,444	3,564
Provision /(Reversal) for allowance for doubtful accounts	(386)	3,260
Excess tax benefits from share-based payment arrangements	0	(2,519)
Investment income from investments in debt securities	(2,748)	(2,727)
Others	(1,507)	(243)
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(38,516)	(26,853)
Prepaid and other assets	(24,002)	(135)
Deferred tax	6,133	5,590
Accounts payable	5,534	12,899
Taxes payable	1,744	(9,313)
Accrued liabilities	21,410	771
Receipts in advance and deferred revenue	1,141	(6,655)
Other short-term liabilities	11,604	9,612
Net cash provided by operating activities	151,726	135,807
Cash flows from investing activities:		
Purchase of noncontrolling interest in 7Road	(76,010)	0
Purchase of fixed assets	(48,655)	(32,631)
Purchase of intangible and other assets	(38,942)	(27,462)
Cash paid related to restricted time deposits	(90,963)	(240)
Purchase of short-term investments, net	(40,682)	(4,299)
Other acquisitions, net of cash acquired	0	(683)
Other cash proceeds /(payments) related to investing activities	281	(2,877)
Net cash used in investing activities	(294,971)	(68,192)
Cash flows from financing activities:		
Issuance of common stock	784	139
Sohu's purchase of Sogou Series A Preferred Shares from Alibaba	0	(25,800)
Repurchase of common stock	0	(12,566)
Proceeds of loans from offshore banks	81,000	0
Payment of contingent consideration	(19,736)	0
Excess tax benefits from share-based payment arrangements	0	2,519
Exercise of share-based awards in subsidiary	1,324	1,360
Proceeds received from early exercise of share-based awards in subsidiary	5,278	0
Other cash payments related to financing activities	(188)	(251)
Net cash provided by /(used in) financing activities	68,462	(34,599)
Effect of exchange rate changes on cash and cash equivalents	11,790	(1,025)
Net (decrease) /increase in cash and cash equivalents	(62,993)	31,991
Cash and cash equivalents at beginning of period	833,535	732,607
Cash and cash equivalents at end of period	<u>\$ 770,542</u>	<u>\$ 764,598</u>
Supplemental cash flow disclosures:		
Barter transactions	374	229
Supplemental schedule of non-cash investing activity:		
Consideration payable for the purchase of noncontrolling interest in 7Road	2,000	0
Changes in government grant in prepaid and other current assets	1,066	794

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, 2013
(In thousands)

	<u>Sohu.com Inc. Shareholders' Equity</u>						
	<u>Total</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Noncontrolling Interest</u>
Beginning balance	\$1,315,217	\$ 44	\$364,092	\$(143,858)	\$ 79,542	\$784,403	\$ 230,994
Issuance of common stock	784	0	784	0	0	0	0
Share-based compensation expense	2,286	0	1,581	0	0	0	705
Purchase of noncontrolling interest in 7Road	2,257	0	1,517	0	0	0	740
Settlement of share-based awards in subsidiary	1,323	0	7,348	0	0	0	(6,025)
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	93,628	0	0	0	0	46,057	47,571
Foreign currency translation adjustment, net of tax	25,232	0	0	0	19,871	0	5,361
Ending balance	<u>\$1,440,727</u>	<u>\$ 44</u>	<u>\$375,322</u>	<u>\$(143,858)</u>	<u>\$ 99,413</u>	<u>\$830,460</u>	<u>\$ 279,346</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, 2012
(In thousands)

	<u>Sohu.com Inc. Shareholders' Equity</u>						
	<u>Total</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Retained Earnings</u>	<u>Noncontrolling Interest</u>
Beginning balance	\$1,219,071	\$ 44	\$366,210	\$(131,292)	\$ 76,219	\$697,244	\$ 210,646
Issuance of common stock	139	0	139	0	0	0	0
Repurchase of common stock	(12,566)			(12,566)			
Share-based compensation expense	6,359	0	3,180	0	0	0	3,179
Settlement of share-based awards in subsidiary	1,361	0	(7,364)	0	0	0	8,725
Sohu's purchase of Sogou Series A Preferred Shares from Alibaba	(25,800)	0	(14,219)	0	0	0	(11,581)
Changes in mezzanine equity of Changyou	6,836	0	6,836	0	0	0	0
Transaction cost for Sohu's sale of the 17173 Business to Changyou	118	0	118	0	0	0	0
Deemed contribution from noncontrolling shareholders (related to Sohu's sale of the 17173 Business to Changyou)	0	0	171	0	0	0	(171)
Excess tax benefits from share-based awards	2,519	0	2,519	0	0	0	0
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	72,362	0	0	0	0	35,890	36,472
Foreign currency translation adjustment, net of tax	(3,668)	0	0	0	(3,166)	0	(502)
Ending balance	<u>\$1,266,731</u>	<u>\$ 44</u>	<u>\$357,590</u>	<u>\$(143,858)</u>	<u>\$ 73,053</u>	<u>\$733,134</u>	<u>\$ 246,768</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 online media, search, gaming, community and mobile service group 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” or “the Group”), mainly offers online advertising services, online game services and mobile services.

Online advertising and online games are the core businesses of the Sohu Group.

Online Advertising

The online advertising business consists of the brand advertising business as well as the search and others business. The brand advertising business offers advertisements on the Sohu Group’s Web properties to companies seeking to increase their brand awareness online. The search and others business, provided by Sohu’s search subsidiary Sogou Inc. (“Sogou”), primarily offers customers pay-for-click services, as well as online marketing services on the Sogou Web Directory.

Online Games

The online game business is conducted by Sohu’s majority-owned subsidiary Changyou.com Limited (“Changyou”).

The online game business consists of the development, operation and licensing of massively multiplayer online games (“MMOGs”), which are interactive online games that may be played simultaneously by hundreds of thousands of game players, Web games, which are played over the Internet using a Web browser, and mobile games. Changyou currently operates several MMOGs in China, including the in-house developed Tian Long Ba Bu (“TLBB”), and developed, and primarily jointly operates with third-party joint operators, DDTank and Wartune (also known as “Shen Qu”), which are two popular Web games in China.

Basis of Consolidation

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

VIE Consolidation

The Sohu Group adopted the guidance of accounting for VIEs, which requires VIEs to be consolidated by the primary beneficiary of the entity. For consolidated VIEs, management made evaluations of the relationships between the Sohu Group and the VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, the Group controls the shareholders’ voting interests in these VIEs. As a result of such evaluation, management concluded that the Sohu Group is the primary beneficiary of its consolidated VIEs. The Sohu Group has one VIE that is not consolidated since the Group is not the primary beneficiary.

Noncontrolling Interest Recognition

Noncontrolling interests are recognized to reflect the portion of the equity of majority-owned subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholders.

Basis of Presentation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

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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 six months ended June 30, 2013 are not necessarily indicative of the results expected for the full fiscal year or for any future period. Certain comparative figures have been reclassified to conform to the current presentation.

Reclassification of revenues and costs related to Changyou Internet value-added services (“IVAS”)

Commencing January 1, 2013, in order to provide a better foundation for understanding Changyou’s performance, both revenues and costs generated from the operation of third-party Web games by the 17173 business were reclassified from the online game business to IVAS in the others business. To conform to current period presentations, the relevant amounts for prior periods have been reclassified accordingly. Such reclassifications amounted to \$1.2 million and \$2.7 million, respectively, for revenues and \$0.4 million and \$1.0 million for costs, respectively, for the three and six months ended June 30, 2012.

2. Segment Information

The Sohu Group’s segments are business units that offer different services and are reviewed separately by the chief operating decision maker (“CODM”), or the decision making group, in deciding how to allocate resources and in assessing performance. The Group’s CODM is Sohu.com Inc.’s Chief Executive Officer. There are five segments in the Group, consisting of brand advertising, Sogou (which mainly consists of the search and others business), Changyou (which mainly consists of the online game business), mobile and others.

Some items, such as share-based compensation expense, operating expenses, other income and expense, and income tax expense, are not reviewed by the CODM. These items are disclosed in the segment information for reconciliation purposes only.

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

	Three Months Ended June 30, 2013							Consolidated
	Brand Advertising, Mobile and Others			Brand Advertising, Mobile and Others	Sogou	Changyou	Eliminations	
	Brand Advertising	Mobile	Others					
Revenues (1)	\$ 92,298	\$ 15,313	\$ 2,524	\$ 110,135	\$ 49,874	\$ 182,371	\$ (3,476)	\$ 338,904
Segment cost of revenues	(48,372)	(8,963)	(837)	(58,172)	(24,495)	(30,976)	96	(113,547)
Segment gross profit/(loss)	\$ 43,926	\$ 6,350	\$ 1,687	51,963	25,379	151,395	(3,380)	225,357
SBC (2) in cost of revenues				(60)	(3)	(35)	0	(98)
Gross profit				51,903	25,376	151,360	(3,380)	225,259
Operating expenses:								
Product development				(22,115)	(14,650)	(26,188)	0	(62,953)
Sales and marketing				(46,960)	(9,447)	(18,450)	3,380	(71,477)
General and administrative				(9,699)	(2,428)	(13,113)	0	(25,240)
SBC (2) in operating expenses				(535)	(261)	(347)	2	(1,141)
Total operating expenses				(79,309)	(26,786)	(58,098)	3,382	(160,811)
Operating profit/(loss)				(27,406)	(1,410)	93,262	2	64,448
Other income				937	82	513	0	1,532
Interest income				1,171	272	4,055	0	5,498
Exchange difference				(458)	143	(1,669)	0	(1,984)
Income/(loss) before income tax expense				(25,756)	(913)	96,161	2	69,494
Income tax expense				(2,366)	(6)	(13,879)	0	(16,251)
Net income				\$ (28,122)	\$ (919)	\$ 82,282	\$ 2	\$ 53,243

Note (1): The elimination for segment revenues mainly consists of marketing services provided by the brand advertising segment (banner advertisements etc.) to the Changyou segment.

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

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Three Months Ended June 30, 2012

	Brand Advertising, Mobile and Others							Consolidated
	Brand Advertising	Mobile	Others	Brand Advertising, Mobile and Others	Sogou	Changyou	Eliminations	
Revenues (1)	\$ 63,647	\$ 15,598	\$2,252	\$ 81,497	\$ 30,397	\$147,341	\$ (3,508)	\$ 255,727
Segment cost of revenues	(49,861)	(10,208)	(280)	(60,349)	(16,154)	(23,493)	76	(99,920)
Segment gross profit /(loss)	<u>\$ 13,786</u>	<u>\$ 5,390</u>	<u>\$1,972</u>	21,148	14,243	123,848	(3,432)	155,807
SBC (2) in cost of revenues				191	(38)	(77)	0	76
Gross profit				<u>21,339</u>	<u>14,205</u>	<u>123,771</u>	<u>(3,432)</u>	<u>155,883</u>
Operating expenses:								
Product development				(16,231)	(9,347)	(16,231)	0	(41,809)
Sales and marketing				(31,342)	(6,160)	(14,432)	3,432	(48,502)
General and administrative				(7,283)	(1,262)	(7,486)	0	(16,031)
Impairment of intangible assets via acquisitions of businesses				0	0	(2,906)	0	(2,906)
SBC (2) in operating expenses				(1,311)	(1,295)	(899)	0	(3,505)
Total operating expenses				<u>(56,167)</u>	<u>(18,064)</u>	<u>(41,954)</u>	<u>3,432</u>	<u>(112,753)</u>
Operating profit /(loss)				(34,828)	(3,859)	81,817	0	43,130
Other income				1,261	3	554	0	1,818
Interest income				3,089	99	4,035	0	7,223
Exchange difference				178	41	(174)	0	45
Income /(loss) before income tax expense				<u>(30,300)</u>	<u>(3,716)</u>	<u>86,232</u>	<u>0</u>	<u>52,216</u>
Income tax expense				(2,393)	0	(16,074)	0	(18,467)
Net income				<u>\$ (32,693)</u>	<u>\$ (3,716)</u>	<u>\$ 70,158</u>	<u>\$ 0</u>	<u>\$ 33,749</u>

Note (1): The elimination for segment revenues mainly consists of marketing services provided by the brand advertising segment (banner advertisements etc.) to the Changyou segment.

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

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Six Months Ended June 30, 2013

	Brand Advertising, Mobile and Others			Brand Advertising, Mobile and Others	Sogou	Changyou	Eliminations	Consolidated
	Brand Advertising	Mobile	Others	Brand Advertising, Mobile and Others	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 167,966	\$ 29,086	\$ 7,154	\$ 204,206	\$ 89,204	\$ 359,956	\$ (6,866)	\$ 646,500
Segment cost of revenues	(90,593)	(18,234)	(2,109)	(110,936)	(45,285)	(61,005)	220	(217,006)
Segment gross profit /(loss)	<u>\$ 77,373</u>	<u>\$ 10,852</u>	<u>\$ 5,045</u>	93,270	43,919	298,951	(6,646)	429,494
SBC (2) in cost of revenues				(138)	(5)	(25)	0	(168)
Gross profit				<u>93,132</u>	<u>43,914</u>	<u>298,926</u>	<u>(6,646)</u>	<u>429,326</u>
Operating expenses:								
Product development				(40,808)	(27,431)	(46,183)	0	(114,422)
Sales and marketing				(87,833)	(17,374)	(31,467)	6,646	(130,028)
General and administrative				(17,450)	(4,068)	(25,817)	0	(47,335)
SBC (2) in operating expenses				(1,159)	(411)	(589)	2	(2,157)
Total operating expenses				<u>(147,250)</u>	<u>(49,284)</u>	<u>(104,056)</u>	<u>6,648</u>	<u>(293,942)</u>
Operating profit /(loss)				(54,118)	(5,370)	194,870	2	135,384
Other income				2,161	86	1,816	0	4,063
Interest income				3,638	606	7,955	0	12,199
Exchange difference				(582)	147	(3,534)	0	(3,969)
Income /(loss) before income tax expense				<u>(48,901)</u>	<u>(4,531)</u>	<u>201,107</u>	<u>2</u>	<u>147,677</u>
Income tax expense				<u>(5,751)</u>	<u>(6)</u>	<u>(30,512)</u>	<u>0</u>	<u>(36,269)</u>
Net income				<u>\$ (54,652)</u>	<u>\$ (4,537)</u>	<u>\$ 170,595</u>	<u>\$ 2</u>	<u>\$ 111,408</u>

Note (1): The elimination for segment revenues mainly consists of marketing services provided by the brand advertising segment (banner advertisements etc.) to the Changyou segment.

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

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Six Months Ended June 30, 2012								
Brand Advertising, Mobile and Others								
	Brand Advertising	Mobile	Others	Brand Advertising, Mobile and Others	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 119,900	\$ 28,949	\$ 3,275	\$ 152,124	\$ 53,175	\$ 284,106	\$ (7,074)	\$ 482,331
Segment cost of revenues	(85,295)	(19,061)	(929)	(105,285)	(29,277)	(44,792)	182	(179,172)
Segment gross profit /(loss)	\$ 34,605	\$ 9,888	\$ 2,346	46,839	23,898	239,314	(6,892)	303,159
SBC (2) in cost of revenues				16	(43)	(167)	0	(194)
Gross profit				46,855	23,855	239,147	(6,892)	302,965
Operating expenses:								
Product development				(29,484)	(16,877)	(32,869)	0	(79,230)
Sales and marketing				(58,778)	(10,584)	(24,152)	6,892	(86,622)
General and administrative				(14,701)	(2,711)	(15,459)	0	(32,871)
Impairment of intangible assets via acquisitions of businesses				0	0	(2,906)	0	(2,906)
SBC (2) in operating expenses				(2,508)	(1,588)	(2,069)	0	(6,165)
Total operating expenses				(105,471)	(31,760)	(77,455)	6,892	(207,794)
Operating profit /(loss)				(58,616)	(7,905)	161,692	0	95,171
Other income /(expense)				2,555	(1)	877	0	3,431
Interest income				6,515	188	7,015	0	13,718
Exchange difference				100	27	(725)	0	(598)
Income /(loss) before income tax expense				(49,446)	(7,691)	168,859	0	111,722
Income tax expense				(4,814)	0	(32,340)	0	(37,154)
Net income				\$ (54,260)	\$ (7,691)	\$ 136,519	\$ 0	\$ 74,568

Note (1): The elimination for segment revenues mainly consists of marketing services provided by the brand advertising segment (banner advertisements etc.) to the Changyou segment.

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

As of June 30, 2013					
	Brand Advertising, Mobile and Others	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	\$ 347,093	\$ 50,124	\$ 373,325	\$ 0	\$ 770,542
Accounts receivable, net	100,545	6,079	32,008	(20)	138,612
Fixed assets, net	242,645	44,065	209,649	0	496,359
Total assets (1)	\$1,031,392	\$104,409	\$1,291,915	\$(158,228)	\$2,269,488

Note (1): The elimination for segment assets mainly consists of elimination of long-term investments in subsidiary and associate companies.

As of December 31, 2012					
	Brand Advertising, Mobile and Others	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	\$ 433,777	\$33,119	\$ 366,639	\$ 0	\$ 833,535
Accounts receivable, net	68,593	6,481	23,364	(40)	98,398
Fixed assets, net	70,262	43,861	64,828	0	178,951
Total assets (1)	\$1,038,741	\$87,537	\$1,114,513	\$(158,154)	\$2,082,637

Note (1): The elimination for segment assets mainly consists of elimination of long-term investments in subsidiary and associate companies.

3. Share-Based Compensation Expense

Sohu, Changyou, Sogou, Fox Video Limited (“Sohu Video”), and 7Road.com Limited (“7Road”) all have incentive plans for the granting of share-based awards, including common stock /ordinary shares, share options, restricted shares and restricted share units, to their executive officers, management and employees.

Sohu, Changyou, and Sogou share-based awards

For Sohu, Changyou and Sogou, share-based compensation expense is recognized as costs and /or expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates. Share-based compensation expense is charged to the shareholders’ equity or noncontrolling interest section in the consolidated balance sheets.

Sohu Video share-based awards

On January 4, 2012, Sohu Video, the holding entity of Sohu’s video division, adopted a 2011 Share Incentive Plan (the “Video 2011 Share Incentive Plan”) which provides for the issuance of up to 25,000,000 ordinary shares of Sohu Video (amounting to 10% of the outstanding Sohu Video shares on a fully-diluted basis) to management and key employees of the video division and to Sohu management. As of June 30, 2013, grants of options for the purchase of 15,352,200 of ordinary shares of Sohu Video had been made and were effective under the Video 2011 Share Incentive Plan.

For purposes of ASC 718, no grant date may be established until mutual understanding of the option awards’ key terms and conditions between Sohu Video and the recipients can be reached, and such mutual understanding cannot be reached until the enterprise value of Sohu Video and hence the fair value of the options is determinable and can be accounted for.

Management concluded that as of June 30, 2013 certain significant factors necessary to determine the fair value of Sohu’s video division remained uncertain. On the basis that the broader terms and conditions of the option awards had neither been finalized nor mutually agreed with the recipients, no grant of options occurred for purposes of ASC 718 and hence no share-based compensation expense was recognized for the three months ended June 30, 2013.

7Road share-based awards

On July 10, 2012, 7Road adopted a 2012 Share Incentive Plan (the “7Road 2012 Share Incentive Plan”), which initially provided for the issuance to selected directors, officers, employees, consultants and advisors of 7Road of up to 5,100,000 ordinary shares of 7Road (amounting to 5.1% of the then outstanding 7Road shares on a fully-diluted basis). On November 2, 2012, 7Road’s Board of Directors and its shareholders approved an increase from 5,100,000 to 15,100,000 ordinary shares (amounting to 13.7% of the then outstanding 7Road shares on a fully-diluted basis) under the 7Road 2012 Share Incentive Plan.

On May 1, 2013, Changyou entered into an agreement to acquire all of the outstanding ordinary shares of 7Road held by the noncontrolling shareholders, representing 28.074% of the outstanding share capital of 7Road. The acquisition closed on June 5, 2013.

On June 28, 2013, 7Road’s Board of Directors approved the cancellation of the 7Road 2012 Share Incentive Plan. 7Road concurrently offered to a total of 42 7Road employees holding an aggregate of 2,223,750 restricted share units which had been granted under the 7Road 2012 Share Incentive Plan the right to exchange their restricted share units for, at each employee’s election, in each case subject to the employee’s continued employment by 7Road, either (i) the right to a cash payment of up to an aggregate of \$2.90 per restricted share unit exchanged, vesting and payable at the rate of 40%, 30% and 30%, respectively, on the first, second and third anniversaries of July 18, 2012, which is the date when the surrendered restricted share units were granted under the 7Road 2012 Share Incentive Plan, or (ii) the right to receive an annual cash bonus, over a seven-year period commencing July 1, 2013, based on adjusted annual cumulative net income of 7Road. All restricted share units held by these 42 holders under the 7Road 2012 Share Incentive Plan as of June 28, 2013 were included in this exchange program.

As the original awards of restricted share units made under the 7Road 2012 Share Incentive Plan included as a vesting condition the completion of an initial public offering (an “IPO”), which is not considered probable under it occurs, no share-based compensation expense was recognized for the fair value of the original awards. As of the date of the modification resulting from the exchange program, incremental compensation expense, which is not classified as share-based compensation expense, will be the fair values of the two new compensation schemes included in the exchange program. Under Scheme I, the modification resulted in total incremental compensation expense of \$5.7 million, which will be recognized in the consolidated statements of comprehensive income ratably over the remaining vesting period of the awards for each tranche. For the three months ended June 30, 2013, compensation expense of \$2.5 million was recognized in the consolidated statements of comprehensive income. For scheme II, the incremental compensation expense will vary depending on 7Road’s future financial performance.

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Share-based compensation expense recognition

Share-based compensation expense was recognized in costs and /or expenses for the three and six months ended June 30, 2013 and 2012, respectively, as follows (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Share-based compensation expense				
Cost of revenues (1)	\$ 98	\$ (76)	\$ 168	\$ 194
Product development expenses	408	1,531	758	2,703
Sales and marketing expenses	201	497	373	1,031
General and administrative expenses	532	1,477	1,026	2,431
	<u>\$ 1,239</u>	<u>\$ 3,429</u>	<u>\$ 2,325</u>	<u>\$ 6,359</u>

Note (1): In the second quarter of 2012, shared-based compensation expense was trued up for forfeited restricted share units which would have become fully vested during the quarter.

There was no capitalized share-based compensation expense for the three and six months ended June 30, 2013 and 2012.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Share-based compensation expense				
For Sohu share-based awards	\$ 722	\$ 1,478	\$ 1,583	\$ 3,181
For Changyou share-based awards	363	813	572	2,019
For Sogou share-based awards	154	1,138	170	1,159
	<u>\$ 1,239</u>	<u>\$ 3,429</u>	<u>\$ 2,325</u>	<u>\$ 6,359</u>

There was no share-based compensation expense recognized for the share-based awards of Sohu Video and 7Road for any of the periods presented in the above table.

4. Fair Value Measurements

Fair Value of Financial Instruments

The Sohu Group's financial instruments include cash equivalents, restricted time deposits, short-term investments, investments in debt securities, accounts receivable, prepaid and other current assets, prepaid non-current assets, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, long-term accounts payable and long-term bank loans.

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1 - observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - include other inputs that are directly or indirectly observable in the market place.

Level 3 - unobservable inputs which are supported by little or no market activity.

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The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of June 30, 2013 (in thousands):

Items	As of June 30, 2013	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 42,867	\$ 0	\$ 42,867	\$ 0
Restricted time deposits	342,514	0	342,514	0
Short-term investments	97,123	0	97,123	0
Investments in debt securities	80,923	0	0	80,923
Total	\$563,427	\$ 0	\$ 482,504	\$ 80,923

The following table sets forth the financial instruments, measured at fair value, by level within the fair value hierarchy as of December 31, 2012 (in thousands):

Items	As of December 31, 2012	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 291,945	\$ 0	\$ 291,945	\$ 0
Restricted time deposits	246,839	0	246,839	0
Short-term investments	54,901	0	54,901	0
Investments in debt securities	79,548	0	0	79,548
Total	\$ 673,233	\$ 0	\$ 593,685	\$ 79,548

The following table sets forth the reconciliation of the fair value measurements using significant unobservable inputs (level 3) from December 31, 2012 to June 30, 2013 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Debt Securities
Beginning balance at December 31, 2012	\$ 79,548
Currency translation adjustment	1,375
Ending balance at June 30, 2013	\$ 80,923

Cash equivalents

The Sohu Group's cash equivalents mainly consist of time deposits placed with banks with an original maturity of three months or less. The fair value of time deposits is determined based on the pervasive interest rates in the market, which are also the interest rates as stated in the contracts with the banks. The Group classifies the valuation techniques that use the pervasive interest rates input as Level 2 of fair value measurements. Generally there are no quoted prices in active markets for identical time deposits at the reporting date. In order to determine the fair value, the Group must use observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Restricted time deposits

Restricted time deposits are valued based on the prevailing interest rates in the market. The Sohu Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

Changyou loans from offshore banks, secured by time deposits

In 2012 and 2013, Changyou drew down loans from offshore branches of certain banks for the purposes of expediting the payment of a special one-time cash dividend to its shareholders, providing working capital to support its overseas operations, and funding the acquisition of outstanding noncontrolling interests in 7Road. These bank loans were secured by an equivalent or greater amount of RMB deposits by Changyou in the onshore branches of such banks. The loans from the offshore branches of the lending banks are classified as short-term bank loans or long-term bank loans based on their payment terms.

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As of June 30, 2013, the total amount of the bank loans was \$323 million, of which \$221 million carried a floating rate of interest based on the London Inter-Bank Offered Rate (“LIBOR”) and \$102 million carried a fixed rate of interest. For the three and six months ended June 30, 2013, interest income from the restricted time deposits securing the loans was \$3.1 million and \$5.9 million, respectively, and interest expense on the bank loans was \$2.2 million and \$4.1 million, respectively. Of the total amount, \$113 million is repayable in the second half of 2013 and \$210 million is repayable in 2014, respectively.

Collateral related to Sogou incentive shares trust arrangements

In February 2013, Sohu deposited \$9 million in cash into restricted time deposit accounts at a bank as collateral for credit facilities provided by the bank to certain Sogou employees. The facilities are intended to fund the employees’ early exercise of Sogou share options and related PRC individual income tax. Sohu is not subject to any additional potential payments other than the restricted time deposit amounts, and believes that the fair value of its guarantee liability is immaterial.

Short-term investments

In accordance with ASC 825, for investments in financial instruments with a variable interest rate indexed to performance of underlying assets, the Sohu Group elected the fair value method at the date of initial recognition and carried these investments at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive income as other income /(expense). To estimate fair value, the Group refers to the quoted rate of return provided by banks at the end of each period using the discounted cash flow method. The Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

As of June 30, 2013, the Sohu Group’s investments in financial instruments were mainly held by 7Road and totaled approximately \$97.1 million. The investments are issued by commercial banks in China with a variable interest rate indexed to performance of underlying assets. Since these investments’ maturity dates are within one year, they are classified as short-term investments. For the three and six months ended June 30, 2013, the Group recorded in the consolidated statements of comprehensive income change in the fair value of short-term investments in the amount of \$0.8 million and \$1.5 million, respectively. For the three and six months ended June 30, 2012, the Group recorded in the consolidated statements of comprehensive income change in the fair value of short-term investments in the amount of \$0.3 million and \$0.6 million, respectively.

Investments in Debt Securities

In September 2010, Sohu purchased from a PRC-based company (the “Debtor”) a convertible debt security in the principal amount of \$74.6 million (or RMB0.5 billion) with interest, payable quarterly in cash, of 3.8% per annum and an initial maturity of twelve months, subject to extension in Sohu’s sole discretion for additional sequential six-month periods. The Debtor’s obligations on the debt are secured by a pledge from the Debtor’s parent company of its entire equity interest in the Debtor. In September 2011, March 2012, September 2012 and March 2013, Sohu extended the maturity of the security for sequential six-month periods, to March 2012, September 2012, March 2013 and September 2013, respectively, with an interest rate of 6.8% per annum. Under the terms of the security, if Sohu continues to extend the maturity of the security to March 31, 2014, it will have the option, exercisable on March 31, 2014, to convert the outstanding principal into fixed percentages of equity interests in two companies which are affiliates of the Debtor.

For the three and six months ended June 30, 2013, interest income generated from this debt security amounted to \$1.39 million and \$2.74 million, respectively. For the three and six months ended June 30, 2012, interest income generated from this debt security amounted to \$1.37 million and \$2.73 million, respectively.

The Sohu Group elected the fair value option to account for its investments in debt securities at their initial recognition. Changes in fair value were recognized in other income /(expense). For the three and six months ended June 30, 2013 and 2012, there was no change in fair value. To estimate fair value, the Group used the income approach, which considers the estimated future return from the investment and the probabilities of getting these returns. The Group classifies the valuation techniques that use these inputs as Level 3 of fair value measurements.

Other financial instruments

The followings are other financial instruments not measured at fair value in the consolidated balance sheets, but for which the fair value is estimated for disclosure purposes.

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Short-term receivables and payables

Accounts receivable and prepaid and other current assets are financial assets with carrying values that approximate fair value due to their short term nature. Short-term accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans and other short-term liabilities are financial liabilities with carrying values that approximate fair value due to their short term nature.

For short-term bank loans, the rates of interest under the agreements with the lending banks were determined based on the prevailing interest rates in the market. The Sohu Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements. For other short-term receivables and payables, the Group estimated fair values using the discounted cash flow method, which is unobservable in the market. The Group classifies the valuation technique as Level 3 of fair value measurements.

Prepaid non-current assets and long-term payables

Prepaid non-current assets are financial assets with carrying values that approximate fair value because the impact of applying a discount rate to the carrying values would be immaterial. Long-term accounts payable and long-term bank loans are financial liabilities with carrying values that approximate fair value due to the change in fair value, after considering the discount rate, being immaterial.

For long-term bank loans, the rates of interest under Changyou's agreements with lending banks were determined based on the prevailing interest rates in the market. The Sohu Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements. For prepaid non-current assets and long-term accounts payable, the Group estimated fair values using the discounted cash flow method, which is unobservable in the market. The Sohu Group classifies the valuation technique as Level 3 of fair value measurements.

5. Fixed Assets

In May 2013, the office building Sohu purchased in 2009 was placed in service. Accordingly, in the same month, the Sohu Group recognized the office building's original cost of \$162 million as fixed assets. The original cost consists primarily of the purchase price and the costs of technological infrastructure and fitting-out work. Also in May 2013, the Group began recognizing depreciation expense based on the building's useful life, which is approximately 41 years, on a straight-line basis.

For Changyou's office building purchased in 2010, as of June 30, 2013, \$144 million had been paid and recognized as construction-in-process under fixed assets in the Sohu Group's consolidated balance sheets, as the construction work of the building had been completed and the technological infrastructure and fitting-out work was still in progress.

6. Goodwill

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

	<u>Brand Advertising</u>	<u>Mobile</u>	<u>Sogou</u>	<u>Changyou</u>	<u>Total</u>
Balance as of December 31, 2012					
Goodwill	\$ 42,093	\$ 15,942	\$ 2,047	\$ 140,122	\$ 200,204
Accumulated impairment losses	(19,846)	(15,942)	0	(5,201)	(40,989)
	<u>\$ 22,247</u>	<u>\$ 0</u>	<u>\$ 2,047</u>	<u>\$ 134,921</u>	<u>\$ 159,215</u>
Transactions in 2013					
Foreign currency translation adjustment	5	0	35	2,154	2,194
Balance as of June 30, 2013	<u>\$ 22,252</u>	<u>\$ 0</u>	<u>\$ 2,082</u>	<u>\$ 137,075</u>	<u>\$ 161,409</u>
Balance as of June 30, 2013					
Goodwill	\$ 42,098	\$ 15,942	\$ 2,082	\$ 142,276	\$ 202,398
Accumulated impairment losses	(19,846)	(15,942)	0	(5,201)	(40,989)
	<u>\$ 22,252</u>	<u>\$ 0</u>	<u>\$ 2,082</u>	<u>\$ 137,075</u>	<u>\$ 161,409</u>

7. Taxation

Sohu.com Inc. and Changyou.com (US) Inc. are subject to income taxes in the United States (“U.S.”). The majority of the subsidiaries and VIEs of the Sohu Group are based in mainland China and are subject to income taxes in the PRC. These China-based subsidiaries and VIEs conduct substantially all of the Sohu Group’s operations, and generate most of the Sohu Group’s income.

The Sohu Group did not have any penalties or significant interest associated with tax positions for the three and six months ended June 30, 2013, nor did the Group have any significant unrecognized uncertain tax positions for the three and six months ended June 30, 2013.

PRC Corporate Income Tax

Related to High and New Technology Enterprises

The PRC Corporate Income Tax Law (the “CIT Law”) applies an income tax rate of 25% to all enterprises but grants preferential tax treatment to High and New Technology Enterprises (“NHTEs”). Under this preferential tax treatment, NHTEs can enjoy a preferential income tax rate of 15% for three years, but need to re-apply after the end of the three-year period. The CIT Law went into effect on January 1, 2008.

Within the Sohu Group, five enterprises, namely Beijing Sohu New Era Information Technology Co., Ltd. (“Sohu Era”), Beijing Sohu New Media Information Technology Co., Ltd. (“Sohu Media”), Beijing Sogou Technology Development Co., Ltd. (“Sogou Technology”), Changyou’s China-based subsidiary Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”) and Changyou’s China-based VIE Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”), qualified as NHTEs in 2008 and qualified upon re-application in 2011. Therefore, for these enterprises the income tax rate is 15% for 2013. These enterprises will need to re-apply for NHTe status in 2014.

Two additional enterprises, Beijing Sohu Internet Information Service Co., Ltd. (“Sohu Internet”) and Beijing Sogou Information Service Co., Ltd. (“Sogou Information”), qualified as NHTEs in 2009 and qualified upon re-application in 2012. Therefore, for these enterprises the income tax rate is 15% for 2013 and 2014. These enterprises will need to re-apply for NHTe status in 2015.

Related to Software Enterprises

Under the CIT Law, a Software Enterprise can enjoy an income tax exemption for two years beginning with its first profitable year and a 50% tax reduction to a rate of 12.5% for the subsequent three years.

As of June 30, 2013, Shenzhen 7Road Technology Co., Ltd (“Shenzhen 7Road”), Beijing Changyou Gamespace Software Technology Co., Ltd. (“Gamespace”), ICE Information Technology (Shanghai) Co., Ltd. (“ICE Information”), Shanghai ICE Information Technology Co., Ltd. (“Shanghai ICE”) and Shenzhen 7Road Network Technologies Co., Ltd. (“7Road Technology”) were “Software Enterprises” entitled to the beneficial tax treatment described above.

PRC Withholding Tax on Dividends

The CIT Law imposes a 10% withholding income tax for dividends distributed by foreign invested enterprises to their immediate holding companies outside mainland China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under the Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital (the “China-HK Tax Arrangement”) if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend may remain subject to a withholding tax rate of 10%.

As of June 30, 2013, Changyou accrued deferred tax liabilities in the amount of \$15.4 million for PRC withholding tax.

Transition from PRC Business Tax to PRC Value Added Tax

Effective September 1, 2012, a Pilot Program for transition from the imposition of PRC business tax (“Business Tax”) to the imposition of value added tax (“VAT”) for revenues from certain industries was expanded from Shanghai to eight other cities and provinces in China, including Beijing and Tianjin. On May 24, 2013, it was announced that commencing August 1, 2013 the Pilot Program will be expanded to all regions in PRC. The Sohu Group’s brand advertising and search revenues are subject to this program.

Business Tax had been imposed primarily on revenues from the provision of taxable services, assignments of intangible assets and transfers of real estate. Prior to the implementation of the Pilot Program, the Sohu Group’s Business Tax rate, which varies depending on the nature of the revenues being taxed, generally ranged from 3% to 5%.

VAT payable on goods sold or taxable labor services provided by a general VAT taxpayer for a taxable period is the net balance of the output VAT for the period after crediting the balance of VAT input. Before the implementation of the Pilot Program, the Sohu Group was mainly subject to a small amount of VAT for revenues of Changyou’s subsidiary 7Road that are deemed for PRC tax purposes to be derived from the sale of software. VAT has been imposed on those 7Road revenues at a rate of 17%, with a 14% immediate tax refund, resulting in a net rate of 3%. With the implementation of the Pilot Program, in addition to the revenues currently subject to VAT, the Group’s brand advertising and search revenues are in the scope of the Pilot Program and are now subject to VAT at a rate of 6%.

Under ASC 605-45, the presentation of taxes on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy decision determined by management. As VAT imposed on brand advertising and search revenues and VAT imposed on 7Road’s revenues from the sale of software are considered as substantially different in nature, the Sohu Group determined that it is reasonable to apply the guidance separately for these two types of VAT. The basis for this determination is that VAT payable on brand advertising and search revenues is the difference between the output VAT (at a rate of 6%) and available input VAT amount (at the rate applicable to the supplier), which is a component of the Group’s costs for providing the brand advertising and search services. On the other hand, the VAT payable by 7Road is in effect at 3% of the applicable revenues from the sale of software, irrespective of the availability of any input VAT, under preferential VAT treatment provided to 7Road by the local tax bureau. In this regard, the Group believes the VAT payable by 7Road is more akin to a sales tax than typical VAT. As a result, the Group adopted the net presentation method for its brand advertising and search businesses both before and after the implementation of the Pilot Program, and for the revenues of 7Road deemed to be derived from the sale of software, the Group adopted the gross presentation method before and after the implementation of the Pilot Program.

U.S. Corporate Income Tax

Sohu.com Inc. is a Delaware corporation that is subject to U.S. corporate income tax on its taxable income at a rate of 34% or 35%. Subject to certain limitations, the net operating losses (“NOLs”) of a corporation taxable in the U.S. that are carried forward from prior years may be used to offset the corporation’s taxable income. At the end of the 2012 taxable year, Sohu.com Inc. had no further NOLs available for offsetting any U.S. taxable income. Accordingly, to the extent that it has U.S. taxable income in 2013, the Sohu Group will accrue U.S. corporate income tax in its consolidated statements of comprehensive income and make estimated tax payments as and when required by U.S. law.

8. Commitments and Contingencies

Unconditional Obligations

As of June 30, 2013, the Sohu Group had commitments for bandwidth purchases in the amount of \$45 million, commitments for video content purchases in the amount of \$36 million, commitments for operating leases in the amount of \$26 million and commitments for other content and service purchases in the amount of \$20 million. In addition, for Changyou’s office building purchased in 2010, \$144 million of the \$163 million purchase price had been paid as of June 30, 2013 and the remaining \$19 million is expected to be settled by the end of 2013.

Litigation

The Sohu Group is a party to various litigation matters which it considers routine and incidental to its business. Management does not expect the results of any of these actions to have a material adverse effect on the Group’s business, results of operations, financial condition and cash flows.

In the first quarter of 2013, the Sohu Group settled lawsuits with four major record companies (Sony BMG, Warner, Universal and Gold Label) without any payment of damages. In these lawsuits, which were initiated against the Sohu Group in March 2008, these record companies had alleged that the Sohu Group provided music search links and download services that violated copyrights they owned.

PRC Law and Regulations

The Chinese market in which the Sohu Group operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability to operate an Internet business and to conduct brand advertising, search and others, online game, mobile 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. Certain risks related to PRC law that could affect the Sohu Group's VIE structure are discussed in Note 9 - VIEs.

Regulatory risks also encompass interpretation by PRC tax authorities of current tax law, including the applicability of certain preferential tax treatments. The Sohu Group's legal structure and scope of operations in China could be subject to restrictions, which could result in limits on its ability to conduct business in the PRC.

The Sohu Group's sales, purchase and expense transactions are generally denominated in RMB and a significant portion of its assets and liabilities are denominated in RMB. The RMB is not freely convertible into foreign currencies. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions. Remittances in currencies other than RMB by its subsidiaries in China may require certain supporting documentation in order to effect the remittance.

9. VIEs

Background

PRC laws and regulations prohibit or restrict foreign ownership of companies that operate Internet information and content, Internet access, online games, mobile, value added telecommunications and certain other businesses in which the Sohu Group is engaged or could be deemed to be engaged. Consequently, the Sohu Group conducts certain of its operations and businesses in the PRC through its VIEs.

The Sohu Group consolidates in its consolidated financial statements all of the VIEs of which the Group is the primary beneficiary. The Sohu Group has one VIE that is not consolidated in the Group's consolidated financial statements because the Group is not the primary beneficiary

VIEs Consolidated within the Sohu Group

The Sohu Group adopted the guidance of accounting for VIEs, which requires VIEs to be consolidated by the primary beneficiary of the entity. Management made evaluations of the relationships between the Sohu Group and its VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of contractual arrangements with its consolidated VIEs, the Sohu Group controls the shareholders' voting interests in those VIEs. As a result of such evaluation, the management concluded that the Sohu Group is the primary beneficiary of the VIEs which the Group consolidates.

All of the consolidated VIEs are incorporated and operated in the PRC, and are directly or indirectly owned by Dr. Charles Zhang, Sohu's Chairman and Chief Executive Officer, or other executive officers and employees of the Sohu Group identified below. Capital for the consolidated VIEs was funded by the Sohu Group through loans provided to Dr. Charles Zhang and those other executive officers and employees, and was initially recorded as loans to related parties. These loans are eliminated for accounting purposes against the capital of the VIEs upon consolidation.

Under contractual agreements with the Sohu Group, Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs are required to transfer their ownership in these entities to the Group, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Group at any time as requested by the Group to repay the loans outstanding. All voting rights of the consolidated VIEs are assigned to the Sohu Group, and the Group has the right to designate all directors and senior management personnel of the consolidated VIEs, and also has the obligation to absorb losses of the consolidated VIEs. Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs have pledged their shares in the consolidated VIEs as collateral for the loans. As of June 30, 2013, the aggregate amount of these loans was \$18.6 million.

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Under its contractual arrangements with the consolidated VIEs, the Sohu Group has the power to direct activities of the VIEs, and can have assets transferred freely out of the VIEs without any restrictions. Therefore, the Group considers that there is no asset of a consolidated VIE that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves of the VIEs. As of June 30, 2013, the registered capital and PRC statutory reserves of the consolidated VIEs totaled \$31.7 million. As all of the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the consolidated VIEs do not have recourse to the general credit of the Sohu Group for any of the liabilities of the consolidated VIEs. Currently there is no contractual arrangement that could require the Sohu Group to provide additional financial support to the consolidated VIEs. As the Sohu Group is conducting certain business in the PRC mainly through the consolidated VIEs, the Group may provide such support on a discretionary basis in the future, which could expose the Group to a loss.

The following is a summary of the consolidated VIEs within the Sohu Group:

Basic Information

Corporate

High Century

Beijing Century High Tech Investment Co., Ltd. (“High Century”) is a holding company which was incorporated in 2001. As of June 30, 2013, the registered capital of High Century was \$4.6 million and Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.

Sohu Entertainment

Beijing Sohu Entertainment Culture Media Co., Ltd. (“Sohu Entertainment”) was incorporated in 2002. As of June 30, 2013, the registered capital of Sohu Entertainment was \$1.2 million and Xin Wang (Belinda Wang), Sohu’s Co-President and Chief Operating Officer, and Ye Deng, a Vice President of Sohu, held 80% and 20% interests, respectively, in this entity.

Sohu Internet

Sohu Internet was incorporated in 2003 and is engaged in the provision of mobile services. As of June 30, 2013, the registered capital of Sohu Internet was \$1.6 million and High Century and Sohu Entertainment held 75% and 25% interests, respectively, in this entity.

For the Online Advertising Business

Brand Advertising Business

Donglin

Beijing Sohu Donglin Advertising Co., Ltd. (“Donglin”) was incorporated in 2010 and is engaged in advertising services. As of June 30, 2013, the registered capital of Donglin was \$1.5 million and High Century and Sohu Internet each held a 50% interest in this entity.

Pilot New Era

Beijing Pilot New Era Advertising Co., Ltd. (“Pilot New Era”) was incorporated in 2010 and is engaged in advertising services. As of June 30, 2013, the registered capital of Pilot New Era was \$0.7 million and High Century and Sohu Internet each held a 50% interest in this entity.

Focus Yiju

Beijing Focus Yiju Network Information Technology Co., Ltd. (“Focus Yiju”) was acquired in 2011 and is engaged in advertising services. As of June 30, 2013, the registered capital of Focus Yiju was \$1.6 million and High Century held a 100% interest in this entity.

Zhi Hui You

Beijing Zhi Hui You Information Technology Co., Ltd. (“Zhi Hui You”) was incorporated in 2011 as “Beijing 17173 Network Technology Co., Ltd.” and was renamed on December 14, 2012. Zhi Hui You is engaged in technology development and advertising services. As of June 30, 2013, the registered capital of Zhi Hui You was \$1.6 million and Jing Zhou and a third party entity each held a 50% interest in this entity.

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Tianjin Jinhua

Tianjin Jinhua Culture Development Co., Ltd. (“Tianjin Jinhua”) was incorporated in 2011 and is engaged in advertising services. As of June 30, 2013, the registered capital of Tianjin Jinhua was \$0.5 million and Ye Deng and Chun Liu each held a 50% interest in this entity.

Search and Others Business

Sogou Information

Sogou Information was incorporated in 2005. As of June 30, 2013, the registered capital of Sogou Information was \$2.5 million and Xiaochuan Wang, Chief Executive Officer of Sogou, and Xianxian Hao each held a 50% interest in this entity.

For the Online Game Business

Gamease

Gamease was incorporated in 2007. As of June 30, 2013, the registered capital of Gamease was \$1.3 million and Tao Wang, Chief Executive Officer of Changyou, and Dewen Chen, President of Changyou, held 60% and 40% interests, respectively, in this entity.

Shanghai ICE

Shanghai ICE was acquired by Changyou in 2010. As of June 30, 2013, the registered capital of Shanghai ICE was \$1.2 million and Runa Pi and Rong Qi each held a 50% interest in this entity.

Guanyou Gamespace

Guanyou Gamespace was incorporated in 2010. As of June 30, 2013, the registered capital of Guanyou Gamespace was \$1.5 million and Tao Wang and Dewen Chen held 60% and 40% interests, respectively, in this entity.

Shenzhen 7Road

68.258% of Shenzhen 7Road was acquired by Gamease in 2011. In the second quarter of 2012, in connection with a reorganization of Shenzhen 7Road to create a Cayman Islands holding company structure, Shenzhen 7Road became a VIE of 7Road, which is a Cayman Islands company of which approximately 71.926% was owned by Changyou. Shenzhen 7Road is controlled by Changyou, and Changyou is a primary beneficiary of Shenzhen 7Road, as a result of contractual arrangements among Shenzhen 7Road, 7Road Technology, which is a PRC-based indirect wholly-owned subsidiary of 7Road, and the shareholders of Shenzhen 7Road. On May 1, 2013, Gamease entered into an agreement to acquire all of the equity interests of Shenzhen 7Road held by the noncontrolling shareholders, representing 31.742% of the equity interests of Shenzhen 7Road. After closing the acquisition of noncontrolling interests on June 5, 2013, Changyou held 100% of the outstanding share capital of 7Road and Gamease held 100% equity interests of Shenzhen 7Road.

For the Mobile Business

GoodFeel

Beijing GoodFeel Information Technology Co., Ltd. (“GoodFeel”) was acquired in 2004 and is engaged in value added telecommunication services. As of June 30, 2013, the registered capital of GoodFeel was \$1.2 million and James Deng and Jing Zhou, held 58.1% and 41.9% interests, respectively, in this entity.

21 East Beijing

Beijing 21 East Culture Development Co., Ltd. (“21 East Beijing”) was acquired in 2006. As of June 30, 2013, the registered capital of 21 East Beijing was \$1.6 million and High Century held a 100% interest in this entity.

Yi He Jia Xun

Beijing Yi He Jia Xun Information Technology Co., Ltd. (“Yi He Jia Xun”) was acquired in September 2011. As of June 30, 2013, the registered capital of Yi He Jia Xun was \$2.1 million and Gang Fang and Yanfeng Lv each held a 50% interest in this entity.

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Financial Information

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

	As of		
	June 30, 2013	December 31, 2012	
ASSETS:			
Cash and cash equivalents	\$ 37,712	\$ 62,638	
Short-term investments	75,117	54,106	
Accounts receivable, net	99,363	80,671	
Other current assets	37,848	30,322	
Intercompany receivables due from subsidiaries	159,075	109,728	
Total current assets	<u>409,115</u>	<u>337,465</u>	
Goodwill	128,396	126,516	
Prepaid and other non-current assets	51,983	57,793	
Total assets	<u>\$ 589,494</u>	<u>\$ 521,774</u>	
LIABILITIES:			
Accounts payable	\$ 9,449	\$ 6,958	
Accrued and other short-term liabilities	76,532	105,322	
Receipts in advance and deferred revenue	47,505	54,150	
Intercompany payables due to subsidiaries	129,243	36,446	
Total current liabilities	<u>262,729</u>	<u>202,876</u>	
Other long-term liabilities	4,665	3,846	
Total liabilities	<u>\$ 267,394</u>	<u>\$ 206,722</u>	
	<u>Three months ended June 30,</u>	<u>Six months ended June 30,</u>	
	2013	2012	2013
Net revenue	\$ 254,165	\$ 218,118	\$ 500,586
Net income	<u>\$ 9,090</u>	<u>\$ 30,134</u>	<u>\$ 19,872</u>
			<u>\$ 53,661</u>

For the table below, consolidated VIEs under the Brand advertising, Sogou, Mobile and Others segments are classified as Sohu's VIEs, and consolidated VIEs under the Changyou segment are classified as Changyou's VIEs.

	Six months ended June 30,	
	2013	2012
Cash flows of Sohu's VIEs		
Net cash provided by /(used in) operating activities	\$ 2,795	\$ (12,169)
Net cash used in investing activities	(991)	(184)
Net cash used in financing activities	<u>\$ 0</u>	<u>\$ 0</u>
	<u>Six months ended June 30,</u>	
	2013	2012
Cash flows of Changyou's VIEs		
Net cash provided by operating activities	\$ 28,842	\$ 11,463
Net cash used in investing activities	(55,869)	(11,291)
Net cash used in financing activities	<u>\$ 0</u>	<u>\$ 0</u>

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Summary of significant agreements currently in effect

Agreements between consolidated VIEs and Nominee Shareholders

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

Loan and equity pledge agreements between Sogou Tech and the shareholders of Sogou Information. These loan agreements provide for loans to the shareholders of Sogou Information for them to make contributions to the registered capital of Sogou Information in exchange for the equity interests in Sogou Information, and under the pledge agreements the shareholders pledge those equity interests to Sogou Tech as security for the loans. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to Sogou Tech their equity interests in Sogou Information.

Exclusive equity interest purchase right agreements between Sogou Tech, Sogou Information and the shareholders of Sogou Information. Pursuant to these agreements, Sogou Tech and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Sogou Information all or any part of their equity interests at a purchase price equal to the shareholders' initial contributions to registered capital.

Powers of Attorney executed by the shareholders of Sogou Information in favor of Sogou Tech with a term of 10 years, extendable at the request of Sogou Tech. These powers of attorney give Sogou Tech the right to appoint nominees to act on behalf of each of the two Sogou Information shareholders in connection with all actions to be taken by Sogou Information.

Business operation agreement among Sogou Tech, Sogou Information and the shareholders of Sogou Information. The agreement sets forth the right of Sogou Tech to control the actions of the shareholders of Sogou Information. The agreement has a term of 10 years, renewable at the request of Sogou Tech.

Loan agreements and equity pledge agreements between AmazGame and the shareholders of Gamease and between Gamespace and the shareholders of Guanyou Gamespace. The loan agreements provide for loans to the shareholders of Gamease and Guanyou Gamespace, respectively, for them to make contributions to the registered capital of Gamease and Guanyou Gamespace in exchange for the equity interests in Gamease and Guanyou Gamespace, respectively. Under the equity pledge agreements the shareholders of Gamease and Guanyou Gamespace, respectively, pledge to AmazGame and Gamespace, respectively, their equity interests in Gamease and Guanyou Gamespace, respectively, to secure the performance of their obligations under the loan agreements and Gamease's and Guanyou Gamespace's obligations to AmazGame and Gamespace under their business agreements. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to AmazGame and Gamespace, respectively, their equity interests in Gamease and Guanyou Gamespace.

Equity interest purchase right agreements between AmazGame and the shareholders of Gamease and between Gamespace and the shareholders of Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace, respectively, have the right, and any third party designated by them has the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Gamease and Guanyou Gamespace, respectively, all or any part of their equity interests at a purchase price equal to their initial contributions to registered capital.

Powers of attorney executed by the shareholders of Gamease in favor of AmazGame and the shareholders of Guanyou Gamespace in favor of Gamespace, with a term of 10 years. These powers of attorney give AmazGame and Gamespace, respectively, the exclusive right to appoint nominees to act on behalf of the shareholders in connection with all actions to be taken by Gamease and Guanyou Gamespace, respectively.

Business operation agreements between AmazGame and the shareholders of Gamease and between Gamespace and the shareholders of Guanyou Gamespace. This agreement sets forth the right of AmazGame and Gamespace, respectively, to control the actions of the shareholders of Gamease and Guanyou Gamespace, respectively. The agreements have a term of 10 years.

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Call option agreement among ICE Information, Shanghai ICE and Shanghai ICE shareholders. This agreement provides to ICE Information and any third party designated by ICE Information the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders all or any part of their shares in Shanghai ICE or purchase from Shanghai ICE all or part of its assets or business at the lowest purchase price permissible under PRC law. The agreement is terminable only if ICE Information is dissolved.

Share pledge agreement among ICE Information, Shanghai ICE and the shareholders of Shanghai ICE. Under this agreement the shareholders pledge to ICE Information their equity interests in Shanghai ICE to secure the performance of their obligations under the call option agreement and Shanghai ICE's obligations to ICE Information under their business agreements.

Business operation agreement among ICE Information, Shanghai ICE and the shareholders of Shanghai ICE. This agreement sets forth the right of ICE Information to control the actions of the shareholders of Shanghai ICE. The agreement is terminable only if ICE Information is dissolved.

Equity interest purchase right agreements among 7Road Technology, Shenzhen 7Road and Shenzhen 7Road's shareholders. Under these agreements, 7Road Technology and any third-party designated by 7Road Technology have the right, exercisable at any time during the term of the agreements, if and when it is legal to do so under PRC law, to purchase from any of the Shenzhen 7Road's shareholders all or any part of their shares in Shenzhen 7Road at a nominal purchase price. Each of these agreements has a term of 10 years, is renewable by 7Road Technology for such term as it may determine and is terminable early only if Shenzhen 7Road's or 7Road Technology's existence is terminated, by mutual agreement of the parties or upon the written request of 7Road Technology.

Equity interest pledge agreements among 7Road Technology, Shenzhen 7Road and Shenzhen 7Road's shareholders. Under these agreements, the shareholders of Shenzhen 7Road agreed to pledge to 7Road Technology their equity interests in Shenzhen 7Road to secure the performance of their respective obligations and Shenzhen 7Road's obligations under the various VIE-related agreements. If any of the shareholders of Shenzhen 7Road or Shenzhen 7Road breaches his or its obligations under any VIE-related agreements, 7Road Technology is entitled to exercise its rights as the beneficiary under the Equity Interest Pledge Agreements. These agreements terminate only after all of the respective obligations of the shareholders and of Shenzhen 7Road under the various VIE-related agreements are no longer in effect.

Business operation agreement among 7Road Technology, Shenzhen 7Road and the shareholders of Shenzhen 7Road. This agreement grants to 7Road Technology the right to control the actions of Shenzhen 7Road and the shareholders of Shenzhen 7Road in their capacities as such. This agreement has a term of 10 years, is renewable by 7Road Technology for such term as it may determine and is terminable early if the existence of Shenzhen 7Road or 7Road Technology is terminated, by mutual agreement of the parties or upon the written request of 7Road Technology.

Powers of attorney executed by the shareholders of Shenzhen 7Road in favor of 7Road Technology. These powers of attorney give 7Road Technology the exclusive right to appoint designees to act on behalf of each of the five shareholders of Shenzhen 7Road in connection with all actions to be taken by Shenzhen 7Road requiring shareholder approval.

Spousal Consent Letter signed by the spouse of each of the shareholders of Shenzhen 7Road who is a married individual, in which the spouse agrees that the equity interests of Shenzhen 7Road owned by such shareholder will be disposed of only in accordance with the applicable Equity Interest Purchase Right Agreement, Equity Interest Pledge Agreement, Business Operation Agreement and other related agreements executed by the shareholder. Such spouse further agrees that such equity interests do not constitute community property with such shareholder and waives irrevocably and unconditionally all rights and benefits with respect to such equity interests, including the right to sue in any court, under all applicable law.

Business Arrangements between Subsidiaries and consolidated VIEs

Business cooperation agreements between Sohu Era and Sohu Internet and between Sogou Tech and Sogou Information. Pursuant to these agreements Sohu Era and Sogou Tech, respectively, provide technical consultation, content purchasing and other related services to Sohu Internet and Sogou Information, respectively, in exchange for a percentage of the gross income, after deduction of related costs and expenses, of Sohu Era and Sogou Tech, respectively. The agreement between Sohu Era and Sohu Internet has a term of one year, and the agreement between Sogou Tech and Sogou Information has a term of 10 years, renewable at the request of Sogou Tech.

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

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

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Services and maintenance agreements between AmazGame and Gamease between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace, respectively, provide marketing, staffing, business operation and maintenance services to Gamease and Guanyou Gamespace, respectively, in exchange for a fee equal to the cost of providing such services plus a predetermined margin. These agreements will be terminated only when AmazGame and Gamespace are dissolved.

Exclusive business cooperation agreement between ICE Information and Shanghai ICE. This agreement sets forth the exclusive right of ICE Information to provide business support and technical services to Shanghai ICE. The agreement will be terminated only when ICE Information is dissolved.

Exclusive technology consulting and services agreement between ICE Information and Shanghai ICE. This agreement provides to ICE Information the exclusive right to provide technical consultation and other related services to Shanghai ICE in exchange for a fee equal to the balance of Shanghai ICE's gross income after deduction of related costs and expenses. The agreement will be terminated only when ICE Information is dissolved.

Technology development and utilization agreement between 7Road Technology and Shenzhen 7Road. Under this agreement, 7Road Technology has the exclusive right to provide product development and application services and technology support to Shenzhen 7Road for a fee based on Shenzhen 7Road's revenues, which fee can be adjusted by 7Road Technology at any time in its sole discretion. The fee is eliminated upon consolidation. This agreement will terminate if the existence of 7Road Technology or Shenzhen 7Road is terminated, by mutual agreement of the parties or upon failure to perform due to a force majeure event.

Services and maintenance agreement between 7Road Technology and Shenzhen 7Road. Pursuant to this agreement, 7Road Technology provides marketing and maintenance services to Shenzhen 7Road in exchange for a fee equal to the cost of providing such services plus a predetermined margin. This agreement will terminate if the existence of 7Road Technology or Shenzhen 7Road is terminated, by mutual agreement of the parties or upon failure to perform due to a force majeure event.

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

VIE-Related Risks

It is possible that the Sohu Group's operation of certain of its operations and businesses through VIEs could be found by PRC authorities to be in violation of PRC laws and regulations prohibiting or restricting foreign ownership of companies that engage in such operations and businesses. If such a finding were made, regulatory authorities with jurisdiction over the licensing and operation of such operations businesses would have broad discretion in dealing with such a violation, including levying fines, confiscating the Group's income, revoking the business or operating licenses of the affected businesses, requiring the Group to restructure its ownership structure or operations, or requiring the Group to discontinue all or any portion of its operations. Any of these actions could cause significant disruption to the Group's business operations, and have a materially adverse impact on the Group's cash flows, financial position and operating performance. The management considers the possibility of such a finding by PRC regulatory authorities to be remote.

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

VIE Not Consolidated within the Sohu Group

In December 2012, the Sohu Group acquired, for a price of \$1.6 million, a 25% equity interest in a VIE to support the Group's brand advertising business. Since the Sohu Group neither controls nor has significant influence over this VIE, the Group is not the primary beneficiary and, accordingly, the Group recognizes the investment under the equity method. In assessing its maximum exposure to a loss on the investment compared to the cost of its investment, the Sohu Group determined that it did not have further obligations exceeding the cost of the investment and that there were no terms of the investment arrangement that could require the Sohu Group to provide further financial support to the VIE.

10. Sohu.com Inc. Shareholders' Equity

Takeover Defense

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

Treasury Stock

Treasury stock consists of shares repurchased by Sohu that are no longer outstanding and are held by Sohu. Treasury stock is accounted for under the cost method.

On August 29, 2011, Sohu's Board of Directors authorized a combined share purchase program of up to \$100 million of outstanding shares of common stock of Sohu and /or the outstanding American depositary shares ("ADSs") of Changyou over a one-year period from September 1, 2011 to August 31, 2012. As of the expiration of the program on August 31, 2012, Sohu had repurchased 500,000 shares of common stock of Sohu, which is treated as treasury stock, for consideration of \$29.2 million. The Group also had purchased 750,000 Changyou ADSs, representing 1,500,000 ordinary shares, for consideration of \$25.7 million. The total consideration paid under the combined share purchase program was \$54.9 million.

Stock Incentive Plan

Sohu, Changyou, Sogou, Sohu Video and 7Road all have incentive plans for the granting of share-based awards, including common stock /ordinary shares, share options, restricted shares and restricted share units, to their directors, executive officers, and employees.

1) Sohu.com Inc. Share-based Awards

Sohu's 2000 Stock Incentive Plan

Sohu's 2000 Stock Incentive Plan (the "Sohu 2000 Stock Incentive Plan") provided for the issuance of up to 9,500,000 shares of common stock, including those issued pursuant to the exercise of share options and upon vesting and settlement of restricted share units. Most of these awards vest over a period of four years. The maximum term of any issued stock right under the Sohu 2000 Stock Incentive Plan is ten years from the grant date. The Sohu 2000 Stock Incentive Plan expired on January 24, 2010. As of the expiration date, 9,128,724 shares of common stock had been issued or were subject to issuance upon the vesting and exercise of share options or the vesting and settlement of restricted share units granted under the plan. A new plan (the "Sohu 2010 Stock Incentive Plan") was adopted on July 2, 2010.

For the three and six months ended June 30, 2013, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was \$0.5 million and \$1.2 million, respectively. For the three and six months ended June 30, 2012, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was \$1.2 million and \$2.7 million, respectively.

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i) Summary of share option activity

A summary of share option activity under the Sohu 2000 Stock Incentive Plan as of and for the six months ended June 30, 2013 is presented below:

<u>Options</u>	<u>Number Of Shares (in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (1) (in thousands)</u>
Outstanding at January 1, 2013	242	\$ 19.36	1.91	\$ 6,781
Exercised	(57)	14.53		
Forfeited or expired	(1)	9.07		
Outstanding at June 30, 2013	184	20.91	1.67	7,478
Vested at June 30, 2013	184	20.91	1.67	7,478
Exercisable at June 30, 2013	184	20.91	1.67	7,478

Note (1): The aggregate intrinsic value in the preceding table represents the difference between Sohu's closing stock price of \$61.62 on June 30, 2013 and the exercise price of share options. The total intrinsic value of share options exercised for the six months ended June 30, 2013 was \$2.0 million.

No options have been granted under Sohu's 2000 Stock Incentive Plan since 2006. For the three and six months ended June 30, 2013 and 2012, no compensation expense was recognized for share options because the requisite service periods for share options had ended by the end of 2009.

For the three and six months ended June 30, 2013, total cash received from the exercise of share options amounted to \$0.3 million and \$0.8 million, respectively. For the three and six months ended June 30, 2012, total cash received from the exercise of share options amounted to \$99,000 and \$139,000, respectively.

ii) Summary of restricted share unit activity

A summary of restricted share unit activity under the Sohu 2000 Stock Incentive Plan as of and for the six months ended June 30, 2013 is presented below:

<u>Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2013	255	\$ 61.27
Granted	0	
Vested	(127)	61.27
Forfeited	(2)	61.27
Unvested at June 30, 2013	126	61.27
Expected to vest thereafter	94	61.27

For the three and six months ended June 30, 2013, total share-based compensation expense recognized for restricted share units was \$0.5 million and \$1.2 million, respectively. For the three and six months ended June 30, 2012, total share-based compensation expense recognized for restricted share units was \$1.2 million and \$2.7 million, respectively.

As of June 30, 2013, there was \$1.2 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 0.41 years. The total fair value on their respective vesting dates of restricted share units vested during the three and six months ended June 30, 2013 was nil and \$6.2 million, respectively. The total fair value on their respective vesting dates of restricted share units vested during the three and six months ended June 30, 2012 was \$0.3 million and \$8.9 million, respectively.

Sohu's 2010 Stock Incentive Plan

On July 2, 2010, Sohu adopted the Sohu 2010 Stock Incentive Plan, which provides for the issuance of up to 1,500,000 shares of common stock, including those issued pursuant to the vesting and settlement of restricted share units and pursuant to the exercise of share options. The maximum term of any issued stock right under the Sohu 2010 Stock Incentive Plan is ten years from the grant date. The Sohu 2010 Stock Incentive Plan will expire on July 1, 2020. As of June 30, 2013, 1,455,422 shares were available for grant under the Sohu 2010 Stock Incentive Plan.

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A summary of restricted share unit activity under the Sohu 2010 Stock Incentive Plan as of and for the six months ended June 30, 2013 is presented below:

<u>Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2013	5	\$ 70.88
Granted	14	48.75
Vested	0	
Forfeited	(2)	70.88
Unvested at June 30, 2013	<u>17</u>	<u>52.97</u>
Expected to vest thereafter	<u>16</u>	<u>51.99</u>

For the three and six months ended June 30, 2013, total share-based compensation expense recognized for restricted share units was \$0.2 million and \$0.4 million, respectively. For the three and six months ended June 30, 2012, total share-based compensation expense recognized for restricted share units was \$0.2 million and \$0.4 million, respectively.

As of June 30, 2013, there was \$0.5 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 0.48 years. The total fair value on their respective vesting dates of restricted share units vested was nil during the three and six months ended June 30, 2013 and during the three and six months ended June 30, 2012.

2) Changyou.com Limited Share-based Awards

Changyou's 2008 Share Incentive Plan

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

As of June 30, 2013, Changyou had granted under the Changyou 2008 Share Incentive Plan 15,000,000 ordinary shares to Tao Wang, through Prominence Investments Ltd. ("Prominence") and 4,781,552 restricted share units to certain of its executive officers other than Tao Wang, and to certain of its other employees. Prominence is an entity that may be deemed under applicable rules of the Securities and Exchange Commission to be beneficially owned by Tao Wang.

For the three and six months ended June 30, 2013, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was \$0.4 million and \$0.6 million, respectively. For the three and six months ended June 30, 2012, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was \$0.8 million and \$2.0 million, respectively.

Share-based Awards granted before Changyou's Initial Public Offering

For Changyou restricted ordinary shares granted to Tao Wang and to its executive officers other than Tao Wang before Changyou's initial public offering, there was no unrecognized share-based compensation expense as of June 30, 2013, as these awards were fully vested in 2012.

For Changyou restricted share units granted to certain of its other employees before Changyou's initial public offering, there was no unrecognized share-based compensation expense as of June 30, 2013, as these awards were fully vested. The fair value of these restricted share units as of the grant date was determined based on Changyou's offering price for its initial public offering, which was \$8.00 per ordinary share.

A summary of activity for the restricted share units as of and for the six months ended June 30, 2013 is presented below:

<u>Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2013	81	\$ 8.00
Granted	0	
Vested	(81)	8.00
Forfeited	0	
Unvested at June 30, 2013	<u>0</u>	
Expected to vest thereafter	<u>0</u>	

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For the three and six months ended June 30, 2013, total share-based compensation expense recognized for the above restricted share units was nil and negative \$0.3 million, respectively. The negative \$0.3 million resulted from Changyou's true-up of the share-based compensation expense for forfeited restricted share units in the first quarter of 2013. For the three and six months ended June 30, 2012, total share-based compensation expense recognized for the above restricted share units was \$50,000 and \$0.2 million, respectively.

As of June 30, 2013, there was no unrecognized share-based compensation expense related to the unvested restricted share units. The total fair value of restricted share units vested to Changyou's employees on their respective vesting dates was \$1.1 million both for the three months and for the six months ended June 30, 2013. The total fair value of restricted share units vested to Changyou's employees on their respective vesting dates was \$1.2 million both for the three months and for the six months ended June 30, 2012.

Share-based Awards granted after Changyou's Initial Public Offering

As of June 30, 2013, in addition to the share-based awards granted before Changyou's initial public offering, Changyou had granted an aggregate of 1,585,552 restricted share units (setttable in ordinary shares) to certain of its executive officers other than Tao Wang and to certain of its employees. These restricted share units are subject to vesting over a four-year period commencing on their grant dates. Share-based compensation expense for such restricted share units is recognized on an accelerated basis over the requisite service period. The fair value of restricted share units was determined based on the market price of Changyou's ADSs on the grant date.

A summary of activity for these restricted share units as of and for the six months ended June 30, 2013 is presented below:

<u>Restricted Share Units</u>	<u>Number of Units (in thousands)</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Unvested at January 1, 2013	526	\$ 13.30
Granted	36	14.57
Vested	(319)	12.70
Forfeited	(10)	12.11
Unvested at June 30, 2013	233	14.37
Expected to vest thereafter	215	14.40

For the three and six months ended June 30, 2013, total share-based compensation expense recognized for the above restricted share units was \$0.4 million and \$0.9 million, respectively. For the three and six months ended June 30, 2012, total share-based compensation expense recognized for the above restricted share units was \$0.8 million and \$1.8 million, respectively.

As of June 30, 2013, there was \$1.3 million of unrecognized compensation expense related to the unvested restricted share units. The expense is expected to be recognized over a weighted average period of 0.92 years. The total fair value of these restricted share units vested during the three and six months ended June 30, 2013 was \$4.4 million and \$4.7 million, respectively. The total fair value of these restricted share units vested during the three and six months ended June 30, 2012 was \$3.7 million and \$4.0 million, respectively.

3) Sogou Inc. Share-based Awards

Sogou 2010 Share Incentive Plan

On October 20, 2010, Sogou adopted the Sogou 2010 Share Incentive Plan (the "Sogou 2010 Share Incentive Plan"). On June 18, 2013, the Sogou 2010 Share Incentive Plan was amended to provide for the issuance of up to 36,000,000 ordinary shares of Sogou to management and key employees of Sogou and of any present or future parents or subsidiaries or variable interest entities of Sogou. The maximum term of any issued share right under the amended Sogou 2010 Share Incentive Plan is ten years from the grant date. The amended Sogou 2010 Share Incentive Plan will expire on October 19, 2020. As of June 30, 2013, Sogou had issued options for the purchase of 35,654,750 ordinary shares.

Of the 35,654,750 issued share options, 23,424,750 share options will become vested and exercisable in four equal installments, with each installment vesting upon a service period requirement for management and key employees being met, as well as Sogou's achievement of performance targets for the corresponding period. The performance target for each installment will be set at the beginning of each vesting period; therefore, for purposes of recognition of share-based compensation expense, each installment is considered to be granted at that date. As of June 30, 2013, performance targets had been set for 12,960,400 share options and, accordingly, those options subject to vesting upon service period requirements for management and key employees being met and Sogou's achievement of performance targets were considered granted for purposes of recognition of share-based compensation expense. As of June 30, 2013, 9,944,125 share options had become vested and exercisable because both the service period and the performance requirements had been met, and a portion of the vested shares had been exercised. 108,150 share options, for which the performance requirements had been met, remained unvested because the service period requirement had not been met.

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8,270,000 share options will become vested and exercisable in four or five equal installments, with (i) the first installment vesting upon Sogou's completion of an initial public offering of its ordinary shares ("Sogou's IPO") and the expiration of all underwriters' lockup periods applicable to the IPO, and (ii) each of the three or four subsequent installments vesting on the first, second, third and, if applicable, fourth anniversary dates, respectively, of the closing of Sogou's IPO.

The remaining 3,960,000 share options will become vested and exercisable in four equal installments, with (i) the first installment vesting upon the first anniversary of the occurrence of either of the following events ("Event"): (a) completion of Sogou's IPO; (b) the consolidation of Sogou with or the acquisition of Sogou by another person or entity in a sale of all or substantially all of its assets or shares, and (ii) each of the three subsequent installments vesting on the second, third and fourth anniversary dates, respectively, of the occurrence of an Event. If there has not been an Event within 24 months from June 15, 2013 (the "Vesting Cessation Date"), all installments of the remaining 3,960,000 share options will cease to vest.

All installments of the 8,270,000 and 3,960,000 share options that are subject to vesting upon the completion of Sogou's IPO or an Event were considered granted upon the issuance of the options. The completion of a firm commitment IPO or such an Event is considered to be a performance condition of the awards. An IPO event or such an Event is not considered to be probable until it is completed. Under ASC 718, compensation cost should be accrued if it is probable that the performance condition will be achieved and should not be accrued if it is not probable that the performance condition will be achieved. As a result, no compensation expense will be recognized related to these options until the completion of an IPO or the occurrence of an Event, and hence no share-based compensation expense was recognized for the three and six months ended June 30, 2013 for the 8,270,000 and 3,960,000 share options that are subject to vesting upon the completion of Sogou's IPO or an Event.

A summary of share option activity under the Sogou 2010 Stock Incentive Plan as of and for the six months ended June 30, 2013 is presented below:

<u>Options</u>	<u>Number Of Shares (in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>
Outstanding at January 1, 2013	6,345	\$ 0.001	
Granted	14,168	0.318	
Exercised	(5,121)	0.001	
Forfeited or expired	(17)	0.001	
Outstanding at June 30, 2013	15,375	0.293	9.34
Vested at June 30, 2013 and expected to vest thereafter	3,063		
Exercisable at June 30, 2013	128		

For the three and six months ended June 30, 2013, total share-based compensation expense recognized for share options under the amended Sogou 2010 Share Incentive Plan was \$132,000 and \$148,000, respectively. For the three and six months ended June 30, 2012, total share-based compensation expense recognized for share options under the amended Sogou 2010 Share Incentive Plan was \$956,000 and \$977,000, respectively.

As of June 30, 2013, there was \$1.8 million of unrecognized compensation expense related to the unvested share options. The expense is expected to be recognized over a weighted average period of 0.51 years.

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

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

<u>Granted to Employees</u>	<u>2013</u>
Average risk-free interest rate	2.10%~2.51%
Exercise multiple	2~3
Expected forfeiture rate (Post-vesting)	1.3%~6.0%
Weighted average expected option life	10
Volatility rate	47.00%~49.00%
Dividend yield	0%
Fair value	0.67

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Sogou estimated the risk free rate based on the yield to maturity of China Sovereign bonds denominated in United States dollars as of the valuation date. An exercise multiple was estimated as the ratio of fair value of the shares over the exercise price as of the time the option is exercised, based on consideration of research studies regarding exercise patterns based on historical statistical data. In Sogou's valuation analysis, a multiple of two was applied for employees and a multiple of three was applied for management. Sogou estimated the forfeiture rate to be 1.3% for Sogou management's share options granted as of June 30, 2013 and 6.0% for Sogou employees' share options granted as of June 30, 2013. The life of the share options is the contract life of the option. Based on the option agreement, the contract life of the option is 10 years. The expected volatility at the valuation date was estimated based on the historical volatility of comparable companies for the period before the grant date with length commensurate with the expected term of the options. Sogou has no history or expectation of paying dividends on its ordinary shares. Accordingly, the dividend yield is estimated to be 0%.

Share-based Awards to Sohu management

Under an arrangement approved by the Board of Directors of Sohu and Sogou in March 2011, Sohu has the right to provide to Sohu management and key employees the opportunity to purchase from Sohu up to 12,000,000 ordinary shares of Sogou at a fixed exercise price of \$0.625 per share. Of these 12,000,000 ordinary shares, 8,800,000 are Sogou ordinary shares previously held by Sohu and 3,200,000 are Sogou ordinary shares that were newly-issued on April 14, 2011 by Sogou to Sohu at a price of \$0.625 per share, or a total of \$2 million. As of June 30, 2013, Sohu had issued options for the purchase of 11,378,500 Sogou ordinary shares to Sohu management and key employees under this arrangement.

Of the 11,378,500 issued share options, 8,978,500 share options will become vested and exercisable in four equal installments, with each installment vesting upon a service period requirement for management and key employees being met, as well as Sogou's achievement of performance targets for the corresponding period. The performance target for each installment will be set at the beginning of each vesting period; therefore, for purposes of recognition of share-based compensation expense, each installment is considered to be granted at that date. As of June 30, 2013, performance targets had been set for 5,466,875 share options and, accordingly, those options vesting upon service period requirements for management and key employees being met and Sogou's achievement of performance targets were considered granted. As of June 30, 2013, 4,348,000 share options had become vested and exercisable because both the service period and the performance requirements had been met, and a portion of the vested shares had been exercised.

The remaining 2,400,000 share options will become vested and exercisable in five equal installments, with (i) the first installment vesting upon Sogou's IPO and the expiration of all underwriters' lockup periods applicable to the IPO, and (ii) each of the four subsequent installments vesting on the first, second, third and fourth anniversary dates, respectively, of the closing of Sogou's IPO. All installments of the 2,400,000 share options that are subject to vesting upon the completion of Sogou's IPO were considered granted upon the issuance of the options. The completion of a firm commitment IPO is considered to be a performance condition of the awards. An IPO event is not considered to be probable until it is completed. Under ASC 718, compensation cost should be accrued if it is probable that the performance condition will be achieved and should not be accrued if it is not probable that the performance condition will be achieved. As a result, no compensation expense will be recognized related to these options until the completion of an IPO, and hence no share-based compensation expense was recognized for the three and six months ended June 30, 2013, for the 2,400,000 share options that are subject to vesting upon the completion of Sogou's IPO.

A summary of share option activity as of and for the six months ended June 30, 2013 is presented below:

<u>Options</u>	<u>Number Of Shares (in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>
Outstanding at January 1, 2013	2,178	\$ 0.625	
Granted	3,519	0.625	
Exercised	(2,175)	0.625	
Forfeited or expired	0		
Outstanding at June 30, 2013	3,522	0.625	9.11
Vested at June 30, 2013 and expected to vest thereafter	1,119		
Exercisable at June 30, 2013	3		

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For both the three months and the six months ended June 30, 2013, total share-based compensation expense recognized for share options under the arrangement was \$22,000. For both the three months and the six months ended June 30, 2012, total share-based compensation expense recognized for share options under the arrangement was \$182,000.

As of June 30, 2013, there was \$361,000 of unrecognized compensation expense related to the unvested share options. The expense is expected to be recognized over a weighted average period of 0.5 years.

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

<u>Granted to Employees</u>	<u>2013</u>
Average risk-free interest rate	2.10%~2.51%
Exercise multiple	2~3
Expected forfeiture rate (Post-vesting)	0%-8%
Weighted average expected option life	10
Volatility rate	48.00%-49.00%
Dividend yield	0%
Fair value	0.27-0.38

Option Modification

As of June 30, 2013, 19,245,000 share options granted under the amended Sogou 2010 Share Incentive Plan and 1,225,000 share options granted under the arrangement providing for Sogou share-based awards to Sohu management and key employees, or a total of 20,470,000 share options, were early exercised, and the resulting Sogou ordinary shares were transferred to a trust with the original option grantees as beneficiaries. The trust will distribute the shares to those beneficiaries in installments based on the vesting requirements under the original option agreements. Although this trust arrangement caused a modification of the terms of these share options, the modification was not considered substantive; therefore no incremental fair value related to these shares resulted from the modification, and the remaining share-based compensation expense for these shares will continue to be recognized over the original remaining vesting period.

4) Sohu Video Share-based Awards and 7Road Share-based Awards

See Note 3 - Share-Based Compensation Expense.

11. Business Restructuring

7Road Transactions

On May 11, 2011, Changyou, through its VIE Gamease, acquired 68.258% of the equity interests of Shenzhen 7Road and began to consolidate Shenzhen 7Road's financial statements on June 1, 2011. Effective June 26, 2012, Shenzhen 7Road was reorganized into a Cayman Islands holding company structure where Changyou holds a direct ownership interest in 7Road through Changyou's subsidiary Changyou.com Webgames (HK) Limited, and Shenzhen 7Road is a VIE of 7Road. On June 21, 2012, Mr. Kai Cao, who was then 7Road's Chief Executive Officer, surrendered to 7Road, without consideration, ordinary shares of 7Road representing 5.1% of the then outstanding share capital of 7Road. As a result, the noncontrolling interest decreased to 28.074% of 7Road and Changyou's interest in 7Road increased to 71.926%. When 7Road and Shenzhen 7Road are discussed in this report, the reorganization is treated as if it had been effective upon Changyou's initial acquisition of the equity interests of Shenzhen 7Road.

On May 1, 2013, Changyou entered into an agreement to acquire all of the ordinary shares of 7Road held by the noncontrolling shareholders, representing 28.074% of the outstanding share capital of 7Road, for aggregate cash consideration of approximately \$78 million. Effective with Changyou's entering into the acquisition agreement, Mr. Dewen Chen, Changyou's President, was appointed as the Chairman and acting Chief Executive Officer of 7Road, and Mr. Kai Cao resigned as a director and as Chief Executive Officer of 7Road.

The acquisition closed on June 5, 2013. Effective with the closing, 7Road became an indirect wholly-owned subsidiary of Changyou, and Changyou's VIE Gamease became the sole shareholder of 7Road's VIE Shenzhen 7Road. Also effective upon the closing, the former noncontrolling shareholders' existing non-compete covenants with Changyou were terminated, and an agreement took effect under which the former noncontrolling shareholders agreed, for a period of two years after the closing, to not solicit or hire existing employees of 7Road.

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As of June 30, 2013, Changyou had paid \$76 million of the total cash consideration. The remaining \$2 million will be settled in June 2014.

17173 Transaction

On December 15, 2011, Sohu closed the sale to Changyou of certain assets associated with the business of 17173.com (the “17173 Business”) for fixed cash consideration of \$162.5 million. After the closing of the sale, Sohu continued to consolidate the results of operations of the 17173 Business in the Sohu Group’s consolidated financial statements.

Sogou Transactions

Sogou Restructuring

On October 22, 2010, Sogou sold 24.0 million, 14.4 million and 38.4 million, respectively, of its newly-issued Series A Preferred Shares to Alibaba Investment Limited (“Alibaba”), a private investment subsidiary of Alibaba Group Holding Limited, China Web Search (HK) Limited (“China Web”), an investment vehicle of Yunfeng Fund, LP, and Photon Group Limited (“Photon”), the investment fund of Dr. Charles Zhang, for \$15 million, \$9 million, and \$24 million, respectively.

On June 29, 2012, Sohu purchased the 24 million Sogou Series A Preferred Shares from Alibaba for fixed cash consideration of \$25.8 million. Under ASC 810-10, changes in a parent’s ownership interest while the parent retains control of its subsidiary are accounted for as equity transactions, and do not impact net income or comprehensive income in the consolidated financial statements. The \$14.2 million excess of the purchase price over Alibaba’s net investment balance reduced additional paid-in capital in the Sohu Group’s consolidated balance sheets.

Sohu’s Shareholding in Sogou

Shareholding Control and Economic Interest

As of June 30, 2013, Sogou had outstanding a combined total of 225,763,006 ordinary shares and Series A preferred shares, of which Sohu held 134,868,250 ordinary shares and 24,000,000 Series A preferred shares, or approximately 70% of the combined total of Sogou’s outstanding ordinary shares and Series A preferred shares. Of the 158,868,250 shares held by Sohu, 7,668,250 ordinary shares are subject to purchase under options held by Sohu management and key employees. The remaining 151,200,000 shares account for 67% of the combined total of Sogou’s outstanding ordinary shares and Series A preferred shares. As Sogou’s controlling shareholder, Sohu continues to consolidate Sogou in the Sohu Group’s consolidated financial statements, but recognizes noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu.

Sohu’s economic interest in Sogou, as well as the noncontrolling interest recognized for Sogou in the Sohu Group’s consolidated financial statements, will continue to change as Sogou generates profit/(loss), and outstanding Sogou share options become vested and settled.

Dilutive Impact

As of June 30, 2013, a portion of Sogou options granted to Sogou and Sohu top management and key employees were still unvested and were settable upon the achievement of different vesting conditions. Because no ordinary shares will be issued with respect to share options granted by Sogou until they are vested and exercised, the share options granted by Sogou that have not vested and vested share options that have not yet been exercised are not included as outstanding shares of Sogou and have no impact on the Sohu Group’s basic net income per share. Unvested share options with the performance targets achieved and vested share options that have not yet been exercised do, however, have a dilutive impact on the Sohu Group’s dilutive net income per share. See Note 14 - Net Income per Share.

Sogou Series A Terms

The following is a summary of some of the key terms of the Sogou Series A Preferred Shares.

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Dividend Rights

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

Liquidation Rights

In the event of any "Liquidation Event," such as the liquidation, dissolution or winding up of Sogou, a merger or consolidation of Sogou resulting in a change of control, the sale of substantially all of Sogou's assets or similar events, the holders of Series A Preferred Shares are entitled to receive, before any payment to holders of ordinary shares, an amount equal to the greater of (i) 1.3 times their original investment in the Series A Preferred Shares plus all accrued but unpaid Accruing Dividends and any other accrued and unpaid dividends on the Series A Preferred Shares or (ii) such amount per share as would be payable if the Series A Preferred Shares had been converted into ordinary shares, at the then-applicable conversion rate, immediately prior to the Liquidation Event.

Redemption Rights

The Series A Preferred Shares are not redeemable.

Conversion Rights

Each Series A Preferred Share is convertible, at the option of the holder, at any time, and without the payment of additional consideration by the holder. Each Series A Preferred Share is convertible into such number of ordinary shares as is determined by dividing the original issue price of Series A Preferred Share by the then-effective conversion price. The conversion price is initially the same as the original issue price of \$0.625, and is subject to adjustment on a weighted average basis upon the issuance of additional equity shares, or securities convertible into equity shares, at a price per share less than the original price per share of the Series A Preferred Shares, subject to certain customary exceptions, such as shares issued pursuant to the amended Sogou 2010 Share Incentive Plan. Each Series A Preferred Share will be automatically converted into ordinary shares of Sogou upon the closing of a qualified initial public offering of Sogou based on the then-effective conversion price.

Voting Rights

Each holder of Series A Preferred Shares is entitled to cast the number of votes equal to the number of ordinary shares into which the Series A Preferred Shares held by such holder are then convertible.

Other Rights

The Series A Terms include various other provisions typical of preferred share investments, such as rights of first refusal and co-sale, and registration rights.

Changyou Transactions

On April 7, 2009, Changyou completed an initial public offering of its ADSs on the NASDAQ Global Select Market under the symbol "CYOU." Each of Changyou's ADS represents two ordinary shares.

As of June 30, 2013, Sohu held approximately 67% of the combined total of Changyou's outstanding ordinary shares and controlled approximately 81% of the total voting power in Changyou. As Changyou's controlling shareholder, Sohu continues to consolidate Changyou in the Sohu Group's consolidated financial statements but recognizes noncontrolling interest reflecting the economic interest in Changyou held by shareholders other than Sohu.

As of June 30, 2013, Changyou had outstanding a combined total of 284,338 restricted share units. Because no ordinary shares will be issued with respect to these restricted share units until the restricted share units are vested and settled, the unvested restricted share units and vested restricted share units that have not yet been settled are not included as outstanding shares of Changyou and have no impact on the Sohu Group's basic net income per share. Unvested restricted share units and vested restricted share units that have not yet been settled do, however, have a dilutive impact on the Sohu Group's diluted net income per share. See Note 14 - Net Income per Share.

12. Mezzanine Equity

On May 11, 2011, Changyou, through its VIE Gamease, acquired 68.258% of the equity interests of Shenzhen 7Road and began to consolidate Shenzhen 7Road's financial statements on June 1, 2011.

On June 21, 2012, 7Road's then Chief Executive Officer surrendered to 7Road, without consideration, ordinary shares of 7Road representing 5.1% of the then outstanding share capital of 7Road. As a result, the noncontrolling interest decreased to 28.074% of 7Road and Changyou's interest in 7Road increased to 71.926%.

Mezzanine Equity consists of noncontrolling interest in 7Road and a put option pursuant to which the noncontrolling shareholders would have the right to put their ordinary shares in 7Road to Changyou at a pre-determined price if 7Road achieved specified performance milestones before the expiration of the put option and 7Road did not complete an IPO on NASDAQ, the NYSE or the HKEX. The put option was due to expire in 2014. Since the occurrence of the sale was not solely within the control of Changyou, the noncontrolling interest was classified as mezzanine equity instead of permanent equity in the Sohu Group's and Changyou's consolidated financial statements.

Under ASC 480-10, the Sohu Group calculates, on an accumulative basis from the acquisition date, (i) the amount of accretion that would increase the balance of noncontrolling interest to its estimated redemption value over the period from the date of the Shenzhen 7Road acquisition to the earliest redemption date of the noncontrolling interest in 7Road and (ii) the amount of net profit attributable to noncontrolling shareholders of 7Road based on their ownership percentage. The carrying value of the noncontrolling interest as mezzanine equity is adjusted by an accumulative amount equal to the higher of (i) and (ii).

On May 1, 2013, Changyou entered into an agreement to acquire all of the ordinary shares of 7Road held by the noncontrolling shareholders. The acquisition closed on June 5, 2013. See Note 11 - Business Restructuring. Under ASC 810-10, changes in a parent's ownership interest while the parent retains control of its subsidiary are accounted for as equity transactions, and do not impact net income or comprehensive income in the consolidated financial statements. Following the closing of the acquisition, \$2.4 million, representing the excess of the amount of the mezzanine-classified noncontrolling interest in 7Road over the purchase price as of the closing date, was recorded in the Sohu Group's equity accounts.

For the three and six months ended June 30, 2013, accretion charges of \$7.1 million and \$17.8 million, respectively, compared to \$1.1 million and \$2.2 million, respectively, for the three and six months ended June 30, 2012, were recorded in the Sohu Group's statements of comprehensive income as net income attributable to the mezzanine-classified noncontrolling interest shareholders of 7Road.

13. Noncontrolling Interest

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

Noncontrolling Interest for Changyou

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 interest in Changyou held by shareholders other than Sohu (the "noncontrolling shareholders"), Changyou's net income attributable to these noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income, based on their share of the economic interest in Changyou. Changyou's cumulative results of operations attributable to these noncontrolling shareholders, along with changes in shareholders' equity, adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and adjustment for changes in Sohu's ownership in Changyou, are recorded as noncontrolling interest in the Sohu Group's consolidated balance sheets.

Noncontrolling Interest for Sogou

As Sohu is Sogou's controlling shareholder, Sogou's financial results have been consolidated with those of Sohu for all periods presented. To reflect the economic interest in Sogou held by shareholders other than Sohu (the "noncontrolling shareholders"), Sogou's net income /(loss) attributable to these noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income. Sogou's cumulative results of operations attributable to these noncontrolling shareholders, along with changes in shareholders' equity /(deficit) and adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and noncontrolling shareholders' original investments in Series A Preferred Shares are accounted for as a noncontrolling interest classified as permanent equity in the Sohu Group's consolidated balance sheets, as redemption of the noncontrolling interest is solely within the control of Sohu. These treatments are based on the terms governing investment by the noncontrolling shareholders in the Series A Preferred Shares of Sogou (the "Sogou Series A Terms") the terms of Sogou's restructuring, and Sohu's purchase of Sogou Series A Preferred Shares from Alibaba.

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By virtue of these terms, as Sogou has been losing money after its restructuring, the net losses have been and will be allocated in the following order:

- (i) net losses were allocated to ordinary shareholders until their basis in Sogou decreased to zero;
- (ii) additional net losses will be allocated to holders of Sogou Series A Preferred Shares until their basis in Sogou decreases to zero; and
- (iii) further net losses will be allocated between ordinary shareholders and holders of Sogou Series A Preferred Shares based on their shareholding percentage in Sogou.

Any subsequent net income from Sogou will be allocated in the following order:

- (i) net income will be allocated between ordinary shareholders and holders of Sogou Series A Preferred Shares based on their shareholding percentage in Sogou until their basis in Sogou increases to zero;
- (ii) additional net income will be allocated to holders of Sogou Series A Preferred Shares to bring their basis back;
- (iii) further net income will be allocated to ordinary shareholders to bring their basis back; and
- (iv) further net income will be allocated between ordinary shareholders and holders of Sogou Series A Preferred Shares based on their shareholding percentage in Sogou.

Noncontrolling Interest in the Consolidated Balance Sheets

As of June 30, 2013 and December 31, 2012, noncontrolling interest in the consolidated balance sheets was \$279.3 million and \$231.0 million, respectively.

	As of	
	June 30, 2013 (in thousands)	December 31, 2012 (in thousands)
Changyou	\$ 259,264	\$ 203,995
Sogou	18,049	24,645
Others	2,033	2,354
Total	<u>\$ 279,346</u>	<u>\$ 230,994</u>

Noncontrolling Interest of Changyou

As of June 30, 2013 and December 31, 2012, \$259.3 million and \$204.0 million, respectively, noncontrolling interest was recognized in the Sohu Group's consolidated balance sheets, representing a 33% and a 32%, respectively, economic interest in Changyou's net assets and reflected the reclassification of Changyou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest.

Noncontrolling Interest of Sogou

As of June 30, 2013 and December 31, 2012, \$18.0 million and \$24.6 million, respectively, noncontrolling interest was recognized in the Sohu Group's consolidated balance sheets, representing Sogou's cumulative results of operations attributable to shareholders other than Sohu, Sogou's share-based compensation expenses, along with these shareholders' investments in the Series A Preferred Shares issued by Sogou.

Noncontrolling Interest in the Consolidated Statements of Comprehensive Income

For the three and six months ended June 30, 2013, net income attributable to the noncontrolling interest in the consolidated statements of comprehensive income was \$24.5 million and \$47.6 million, respectively, compared with \$19.9 million and \$36.5 million, respectively, for the three months and six months ended June 30, 2012.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Changyou	\$24,656	\$22,170	\$49,890	\$42,015
Sogou	(37)	(2,477)	(1,966)	(5,548)
Others	(114)	179	(353)	5
Total	<u>\$24,505</u>	<u>\$19,872</u>	<u>\$47,571</u>	<u>\$36,472</u>

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Noncontrolling Interest of Changyou

For the three months ended June 30, 2013 and 2012, \$24.7 million and \$22.2 million, respectively, in net income attributable to the noncontrolling interest was recognized in the Sohu Group's consolidated statements of comprehensive income, representing a 33% and a 32%, respectively, economic interest in Changyou attributable to shareholders other than Sohu.

Noncontrolling Interest of Sogou

For the three months ended June 30, 2013 and 2012, \$37,000 and \$2.5 million, respectively, in net loss attributable to the noncontrolling interest was recognized in the Sohu Group's consolidated statements of comprehensive income, representing Sogou's net loss attributable to shareholders other than Sohu.

14. Net Income per Share

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 or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income per share. Additionally, for purposes of calculating the numerator of diluted net income per share, the net income attributable to the Sohu Group is adjusted as follows:

- (1) Changyou's net income attributable to the Sohu Group is determined using the percentage that the weighted average number of Changyou shares held by Sohu represents of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, instead of by the percentage held by Sohu of the total economic interest in Changyou, which is used for the calculation of basic net income per share.

For the second quarter of 2013, the percentage used for the calculation of basic and dilutive net income per share was 67.2% and 67.1%, respectively. In the calculation of the Sohu Group's diluted net income per share, all of Changyou's existing unvested restricted share units, and vested restricted share units that have not yet been settled are treated as vested and settled by Changyou under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu in Changyou to decrease from 67.2% to 67.1%. As a result, Changyou's net income attributable to the Sohu Group on a diluted basis decreased accordingly. This impact is presented as "incremental dilution from Changyou" in the table below.

- (2) Sogou's net income /(loss) attributable to the Sohu Group is determined using the percentage that the weighted average number of Sogou shares held by Sohu represents of the weighted average number of Sogou ordinary shares and Series A Preferred Shares, shares issuable upon the conversion of convertible preferred shares under the if-converted method, and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, instead of by Sogou's net income /(loss) allocated to the Sohu Group by virtue of the Sogou Series A Terms, the terms of the restructuring and Sohu's purchase of Sogou Series A Preferred Shares from Alibaba, which is used for the calculation of basic net income per share.

In the calculation of the Sohu Group's basic net income per share, Sogou's net income /(loss) attributable to the Group is determined according to the Sogou Series A Terms, the terms of the restructuring and Sohu's purchase of Sogou Series A Preferred Shares from Alibaba. For the second quarter of 2013, in the calculation of the Sohu Group's diluted net income per share, assuming a dilutive effect, the percentage of 70% was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested share options with the performance targets achieved as well as vested but unexercised share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. The above difference is presented as "incremental dilution from Sogou" in the table below.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Numerator:				
Net income attributable to Sohu.com Inc., basic	\$21,626	\$12,782	\$46,057	\$35,890
Effect of dilutive securities:				
Incremental dilution from Changyou	(101)	(484)	(426)	(1,435)
Incremental dilution from Sogou	(21)	(1,543)	(1,139)	(3,457)
Net income attributable to Sohu.com Inc., diluted	<u>\$21,504</u>	<u>\$10,755</u>	<u>\$44,492</u>	<u>\$30,998</u>
Denominator:				
Weighted average basic common shares outstanding	38,259	38,002	38,214	38,043
Effect of dilutive securities:				
Share options and restricted share units	233	345	247	373
Weighted average diluted common shares outstanding	<u>38,492</u>	<u>38,347</u>	<u>38,461</u>	<u>38,416</u>
Basic net income per share attributable to Sohu.com Inc.	<u>\$ 0.57</u>	<u>\$ 0.34</u>	<u>\$ 1.21</u>	<u>\$ 0.95</u>
Diluted net income per share attributable to Sohu.com Inc.	<u>\$ 0.56</u>	<u>\$ 0.28</u>	<u>\$ 1.16</u>	<u>\$ 0.81</u>

15. Subsequent Events

Related to Changyou

On July 27, 2013, Changyou's Board of Directors authorized a share repurchase program of up to \$100 million of the outstanding ADSs of Changyou over a two-year period from July 27, 2013 to July 26, 2015. The ADSs may be purchased from time to time at management's discretion at prevailing market prices in the open market in accordance with Rule 10b-18 under the Securities Exchange Act of 1934. Changyou's management will determine the timing and amount of any purchases of Changyou's ADSs based on their evaluation of market conditions, the trading price of Changyou's ADSs and other factors. The purchase program may be suspended or discontinued at any time.

Related to Sogou

As of June 30, 2013, 23,424,750 share options granted under the Sogou 2010 Share Incentive Plan, and 8,978,500 share options granted under an arrangement approved by the Board of Directors of Sohu and Sogou in March 2011, will become vested and exercisable in four equal installments, with each installment vesting upon a service period requirement being met and Sogou's achievement of performance targets for the corresponding period. The performance target for each installment will be set at the beginning of each vesting period; therefore, for purposes of recognition of share-based compensation expense, each installment is considered to be granted at that date. As of June 30, 2013, performance targets were set for 12,960,400 of the 23,424,750 share options and 5,466,875 of the 8,978,500 share options. As a result, those options vesting upon service period requirements for management and key employees being met and Sogou's achievement of performance targets were considered granted. See Note 10 - Sohu.com Inc. Shareholders' Equity - Stock Incentive Plan.

On July 27, 2013, performance targets were set for another 2,908,125 of the 23,424,750 share options, and another 1,118,875 of the 8,978,500 share options. As a result, as of July 27, 2013, 15,868,525 of the 23,424,750 share options and 6,585,750 of the 8,978,500 share options were considered granted for the purposes of recognition of share-based compensation expense.

16. Recently Issued Accounting Pronouncements

None.

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,” the “Sohu Group,” and “Sohu.com” are to Sohu.com Inc. and, except where the context requires otherwise, our wholly-owned and majority-owned subsidiaries and variable interest entities (“VIEs”), Sohu.com Limited, Sohu.com (Hong Kong) Limited (“Sohu Hong Kong”), All Honest International Limited, Sohu.com (Game) Limited (“Sohu Game”), Go2Map Inc., Sohu.com (Search) Limited, Sogou Inc., Sogou (BVI) Limited, Sogou Hong Kong Limited, Vast Creation Advertising Media Services Limited (“Vast Creation”), Fox Video Investment Holding Limited (“Video Investment”), Fox Video Limited (“Sohu Video”), Fox Video (HK) Limited (“Video HK”), Beijing Sohu New Era Information Technology Co., Ltd. (“Sohu Era”), 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”), Beijing Sohu Interactive Software Co., Ltd. (“Sohu Software”), Go2Map Software (Beijing) Co., Ltd. (“Go2Map Software”), Beijing Sogou Technology Development Co., Ltd. (“Sogou Technology”), Beijing Sogou Network Technology Co., Ltd (“Sogou Network”), Fox Information Technology (Tianjin) Limited (“Video Tianjin”), Beijing Sohu New Media Information Technology Co., Ltd. (“Sohu Media”), Beijing Focus Time Advertising Media Co., Ltd. (“Focus Time”), Beijing Sohu New Momentum Information Technology Co., Ltd. (“Sohu New Momentum”), 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 Sogou Information Service Co., Ltd. (“Sogou Information”), Beijing 21 East Culture Development Co., Ltd. (“21 East Beijing”), Beijing Sohu Donglin Advertising Co., Ltd. (“Donglin”), Beijing Pilot New Era Advertising Co., Ltd. (“Pilot New Era”), Beijing Focus Yiju Network Information Technology Co., Ltd. (“Focus Yiju”), Beijing Yi He Jia Xun Information Technology Co., Ltd. (“Yi He Jia Xun”), Beijing Zhi Hui You Information Technology Co., Ltd. (“Zhi Hui You”), Tianjin Jinhua Culture Development Co., Ltd. (“Tianjin Jinhua”) and our independently-listed majority-owned subsidiary Changyou.com Limited (“Changyou,” formerly known as TL Age Limited) as well as the following direct and indirect subsidiaries and VIEs of Changyou: Changyou.com HK Limited (“Changyou HK,” formerly known as TL Age Hong Kong Limited), Changyou.com Webgames (HK) Limited (“Changyou HK Webgames”), Changyou.com Gamepower (HK) Limited (“Changyou HK Gamepower”), ICE Entertainment (HK) Limited (“ICE HK”), Changyou.com (US) Inc. (formerly known as AmazGame Entertainment (US) Inc.), Changyou.com (UK) Company Limited (“Changyou UK”), ChangyouMy Sdn. Bhd (“Changyou Malaysia”), Changyou.com Korea Limited (“Changyou Korea”), Changyou.com India Private Limited (“Changyou India”), Changyou BİLİŞİM HİZMETLERİ TİCARET LİMİTED ŞİRKETİ (“Changyou Turkey”), Kylie Enterprises Limited, 7Road.com Limited (“7Road”), 7Road.com HK Limited (“7Road HK”), Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”), Beijing Changyou Gamespace Software Technology Co., Ltd. (“Gamespace”), ICE Information Technology (Shanghai) Co., Ltd. (“ICE Information”), Beijing Yang Fan Jing He Information Consulting Co., Ltd. (“Yang Fan Jing He”), Shanghai Jingmao Culture Communication Co., Ltd. (“Shanghai Jingmao”), Shanghai Hejin Data Consulting Co., Ltd. (“Shanghai Hejin”), Beijing Changyou Jingmao Film & Culture Communication Co., Ltd. (“Beijing Jingmao”), Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”), Beijing Guanyou Gamespace Digital Technology Co., Ltd. (“Guanyou Gamespace”), and Shanghai ICE Information Technology Co., Ltd. (“Shanghai ICE”), Shenzhen 7Road Network Technologies Co., Ltd. (“7Road Technology”), Shenzhen 7Road Technology Co., Ltd. (“Shenzhen 7Road”), 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, 2012 filed with the Securities and Exchange Commission (“SEC”) on February 28, 2013, 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 (NASDAQ: SOHU) is a leading Chinese online media, search, gaming, community and mobile service group. We operate one of the most comprehensive matrices of Chinese language content and services, and we developed and operate one of the most popular massively multiplayer online games and two popular Web games in China. Substantially all of our operations are conducted through our indirect wholly-owned and majority-owned China-based subsidiaries and variable interest entities (collectively the “Sohu Group” or “the Group”).

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Our businesses consist of the online advertising business, which consists of the brand advertising business as well as the search and others business, the online game business, the mobile business and the others business, of which online advertising and online games are our core businesses.

Factors and Trends Affecting our Business

The Internet and Internet-related markets in China continued to evolve rapidly during the first half of 2013. According to a semiannual report issued by the China Internet Network Information Center (“CNNIC”), the total number of Internet users in China had reached 591 million by June 30, 2013, an increase of 26.6 million from the end of 2012. The CNNIC also reported that the number of mobile Internet users in China had reached 464 million by June 30, 2013, an increase of 43.8 million from the end of 2012, exceeding the 411 million desktop computer Internet users as of June 30, 2013, which is an indication that mobile Internet is becoming the top channel for Internet users to consume online content in China. We believe that this large and expanding user base will continue to provide significant opportunities to expand our product offerings and to explore new revenue streams.

In China, online video is a top Internet application, with over 389 million users as of June 30, 2013, according to CNNIC. We expect that brand advertisers will continue to allocate more advertising dollars to online video in order to exploit this growing market. To better employ market opportunities, we set up a dedicated advertising sales force for our online video business in 2012. We expect growth in video advertising revenue to accelerate in 2013.

Our search and others business continued to grow, which was attributable to the growth of pay-for-click services, as well as online marketing services on the Sogou Web Directory. We expect our search and others business to sustain healthy revenue growth through the remainder of 2013.

Our strong performance of online game business in the second quarter reflects the growth of the China online game industry. We also believe that it reflects the ongoing strength of our online games content as we are constantly updating our games based on user feedback, which helps to extend the popularity of our games in China. We also have made a successful transition from a pure-play game developer to a broad spectrum gaming company offering multiple types of games on different devices and owning the leading game information portal, 17173.com, in China. On May 1, 2013, Changyou entered into an agreement to acquire all of the ordinary shares of 7Road.com Limited (“7Road”) held by the noncontrolling shareholders, representing 28.074% of the outstanding share capital of 7Road, for aggregate fixed cash consideration of approximately \$78 million. Following the closing of the acquisition on June 5, 2013, 7Road became an indirect wholly-owned subsidiary of Changyou, and Changyou’s VIE Gamease became the sole shareholder of 7Road’s VIE Shenzhen 7Road Technology Co., Ltd (“Shenzhen 7Road”).

Summary of Our Business

Online Advertising Business

Brand Advertising Business

Our brand advertising business offers to our users, over our matrices of Chinese language Web content and services, various products and services (such as free of charge content, including news, video, interactive community, and other competitive Internet services) across multiple internet-enabled devices, such as PCs, mobile phones and tablets.

The majority of our products and services are provided on the following platforms:

- Sohu.com, a leading mass portal and media destination;
- Focus.cn, a top real estate Website; and
- 17173.com, a leading game information portal. Since December 15, 2011, 17173.com has been owned and operated by our majority-owned subsidiary Changyou.com Limited (“Changyou”).

Search and Others Business

Our search and others business, provided by our search subsidiary Sogou Inc. (“Sogou”), primarily offers customers pay-for-click services, as well as online marketing services on the Sogou Web Directory. Pay-for-click services enable our advertisers’ promotional links to be displayed on Sogou search result pages and Sogou Website Alliance members’ Websites where the links are relevant to the subject and content of such Web pages. Both pay-for-click services and online marketing services on the Sogou Web Directory expand distribution of our advertisers’ Website links or advertisements by leveraging traffic on Sogou Website Alliance members’ Websites.

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Online Game Business

Our online game business is conducted via Changyou, a leading online game developer and operator in China. Changyou engages in the development, operation and licensing of online games, including massively multiplayer online games (“MMOGs”), Web games and mobile games. Changyou developed and operates Tian Long Ba Bu (“TLBB”), which is one of the most popular MMOGs in China, and developed, and primarily jointly operates with third-party joint operators, DDTank and Wartune (also known as “Shen Qu”), which are two popular Web games in China. For the second quarter of 2013, more than 70% of the revenues of Changyou’s online game business were derived from TLBB.

We depend on Changyou for a significant portion of our revenues, net income, and operating cash flow. For the second quarter of 2013, Changyou’s online game revenues were \$168.3 million, which represented 50% of our total revenues. Net income contributed by Changyou for the quarter was \$82.3 million, which represented 155% of our total net income.

Mobile Business

Our mobile business offers mobile related services through different types of mobile products to mobile phone users. The mobile products mainly consist of short messaging services (“SMS”), mobile games, Ring Back Tone (“RBT”), mobile video and interactive voice response (“IVR”). A majority of the content is purchased from third party content providers.

Others Business

Our others business are primarily generated from our business of offering Internet value-added services (“IVAS”) with respect to Web games developed by third-party developers under revenue-sharing arrangements with the developers, offering cinema advertisement slots to be shown in theaters before the screening of movies, and sub-licensing of licensed video content to third parties.

Business Restructuring

7Road Transactions

On May 11, 2011, Changyou, through its VIE Gamease, acquired 68.258% of the equity interests of Shenzhen 7Road and began to consolidate Shenzhen 7Road’s financial statements on June 1, 2011. Effective June 26, 2012, Shenzhen 7Road was reorganized into a Cayman Islands holding company structure where Changyou holds a direct ownership interest in 7Road through Changyou’s subsidiary Changyou.com Webgames (HK) Limited, and Shenzhen 7Road is a VIE of 7Road. On June 21, 2012, Mr. Kai Cao, who was then 7Road’s Chief Executive Officer, surrendered to 7Road, without consideration, ordinary shares of 7Road representing 5.1% of the then outstanding share capital of 7Road. As a result, the noncontrolling interest decreased to 28.074% of 7Road and Changyou’s interest in 7Road increased to 71.926%. When 7Road and Shenzhen 7Road are discussed in this report, the reorganization is treated as if it had been effective upon Changyou’s initial acquisition of the equity interests of Shenzhen 7Road.

On May 1, 2013, Changyou entered into an agreement to acquire all of the ordinary shares of 7Road held by the noncontrolling shareholders, representing 28.074% of the outstanding share capital of 7Road, for aggregate cash consideration of approximately \$78 million. Effective with Changyou’s entering into the acquisition agreement, Mr. Dewen Chen, Changyou’s President, was appointed as the Chairman and acting Chief Executive Officer of 7Road, and Mr. Kai Cao resigned as a director and as Chief Executive Officer of 7Road.

The acquisition closed on June 5, 2013. Effective with the closing, 7Road became an indirect wholly-owned subsidiary of Changyou, and Changyou’s VIE Gamease became the sole shareholder of 7Road’s VIE Shenzhen 7Road. Also effective upon the closing, the former noncontrolling shareholders’ existing non-compete covenants with Changyou were terminated, and an agreement took effect under which the former noncontrolling shareholders agreed, for a period of two years after the closing, to not solicit or hire existing employees of 7Road.

As of June 30, 2013, Changyou had paid \$76 million of the total cash consideration. The remaining \$2 million will be settled in June 2014.

17173 Transaction

On December 15, 2011, Sohu closed the sale to Changyou of certain assets associated with the business of 17173.com (the “17173 Business”) for fixed cash consideration of \$162.5 million. After the closing of the sale, Sohu continued to consolidate the results of operations of the 17173 Business in our consolidated financial statements.

Sogou Transactions

On October 22, 2010, Sogou sold 24.0 million, 14.4 million and 38.4 million, respectively, of its newly-issued Series A Preferred Shares to Alibaba Investment Limited (“Alibaba”), a private investment subsidiary of Alibaba Group Holding Limited, China Web Search (HK) Limited (“China Web”), an investment vehicle of Yunfeng Fund, LP, and Photon Group Limited (“Photon”), the investment fund of Sohu’s Chairman and Chief Executive Officer Dr. Charles Zhang, for \$15 million, \$9 million, and \$24 million, respectively. On June 29, 2012, Sohu purchased the 24.0 million Sogou Series A Preferred Shares held by Alibaba for fixed cash consideration of \$25.8 million.

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As of June 30, 2013, Sohu held 70% of the combined total of Sogou's outstanding ordinary shares and Series A Preferred Shares. As Sohu is Sogou's controlling shareholder, we continue to consolidate Sogou in our consolidated financial statements, but recognize noncontrolling interest reflecting economic interest held by shareholders other than Sohu.

Changyou Transactions

On April 7, 2009, Changyou completed an initial public offering of its ADSs on the NASDAQ Global Select Market under the symbol "CYOU." Each of Changyou's ADS represents two ordinary shares.

As of June 30, 2013, Sohu held approximately 67% of the combined total of Changyou's outstanding ordinary shares and controlled approximately 81% of the total voting power in Changyou. As Sohu is Changyou's controlling shareholder, we continue to consolidate Changyou in our consolidated financial statements, but recognize noncontrolling interest reflecting the economic interest in Changyou held by shareholders other than Sohu.

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

Basis of Consolidation

Our consolidated financial statements include the accounts of Sohu.com Inc. and its direct and indirect wholly-owned and majority-owned subsidiaries and consolidated variable interest entities ("VIEs"). All intercompany transactions are eliminated.

VIE Consolidation

Our Group adopted the guidance of accounting for VIEs, which requires VIEs to be consolidated by the primary beneficiary of the entity. For the consolidated VIEs, management made evaluations of the relationships between us and our VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, we control the shareholders' voting interests in these VIEs. As a result of such evaluation, management concluded that we are the primary beneficiary of our consolidated VIEs. Our Group has one VIE that is not consolidated, since we are not the primary beneficiary.

Noncontrolling Interest Recognition

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

Noncontrolling Interest for Changyou

To reflect the economic interest in Changyou held by shareholders other than Sohu ("noncontrolling shareholders"), Changyou's net income attributable to these noncontrolling shareholders is recorded as noncontrolling interest in Sohu's consolidated statements of comprehensive income, based on their share of the economic interests in Changyou. Changyou's cumulative results of operations attributable to these noncontrolling shareholders, along with changes in shareholders' equity, adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and adjustment for changes in Sohu's ownership in Changyou, are recorded as noncontrolling interest in our consolidated balance sheets.

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Noncontrolling Interest for Sogou

To reflect the economic interest in Sogou held by shareholders other than Sohu (“noncontrolling shareholders”), Sogou’s net income /loss attributable to these noncontrolling shareholders is recorded as noncontrolling interest in Sohu’s consolidated statements of comprehensive income. Sogou’s cumulative results of operations attributable to these noncontrolling shareholders, along with changes in shareholders’ equity /(deficit) and adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and noncontrolling shareholders’ investments in Series A Preferred Shares are accounted for as a noncontrolling interest classified as permanent equity in our consolidated balance sheets, as redemption of the noncontrolling interest is solely within our control. These treatments are based on the terms governing investment by the noncontrolling shareholders in the Series A Preferred Shares of Sogou (the “Sogou Series A Terms”), the terms of Sogou’s restructuring, and Sohu’s purchase of Sogou Series A Preferred Shares from Alibaba. By virtue of these terms, as Sogou has been losing money since its restructuring, the net losses have been and will be allocated in the following order:

- (i) net losses were allocated to ordinary shareholders until their basis in Sogou decreased to zero;
- (ii) additional net losses will be allocated to holders of Sogou Series A Preferred Shares until their basis in Sogou decreases to zero; and
- (iii) further net losses will be allocated between ordinary shareholders and holders of Sogou Series A Preferred Shares based on their shareholding percentage in Sogou.

Any subsequent net income from Sogou will be allocated in the following order:

- (i) net income will be allocated between ordinary shareholders and holders of Sogou Series A Preferred Shares based on their shareholding percentage in Sogou until their basis in Sogou increases to zero;
- (ii) additional net income will be allocated to holders of Sogou Series A Preferred Shares to bring their basis back;
- (iii) further net income will be allocated to ordinary shareholders to bring their basis back; and
- (iv) further net income will be allocated between ordinary shareholders and holders of Sogou Series A Preferred Shares based on their shareholding percentage in Sogou.

Segment Reporting

Our Group’s segments are business units that offer different services and are reviewed separately by the chief operating decision maker (“CODM”), or the decision making group, in deciding how to allocate resources and in assessing performance. Our Group’s CODM is Sohu.com Inc.’s Chief Executive Officer. There are five segments in our Group, consisting of brand advertising, Sogou (which mainly consists of the search and others business), Changyou (which mainly consists of the online game business), mobile and others.

Revenue Recognition

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

Under ASC 845, barter trade transactions in which physical goods or services (other than advertising services) are received in exchange for advertising services should be recorded based on the fair values of the goods and/or services received. For our online advertising-for-online advertising barter transactions, no revenue or expense is recognized because the fair value of neither the advertising surrendered nor the advertising received is determinable.

Online Advertising Revenues

Online advertising revenues include revenues from brand advertising services as well as search and others services.

We recognize gross revenue for the amount of fees we receive from our advertisers. 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. Whether we are serving as principal or agent in a transaction is judgmental in nature and is determined by evaluating the terms of the arrangement. Our revenues from online advertising services are recognized on a gross basis as we have the primary responsibility for fulfillment and acceptability. These revenues are recognized after deducting agent rebates paid to advertising agencies and applicable taxes and /or related surcharges.

Before September 1, 2012, our online advertising revenues were subject to PRC business tax (“Business Tax”). Business Tax is imposed primarily on revenues from the provision of taxable services and is calculated by multiplying the applicable tax rate by gross revenue. Our online advertising revenues were recognized after deducting agent rebates and applicable Business Tax and related surcharges. Effective September 1, 2012, the PRC Ministry of Finance and the State Administration of Taxation launched a Business Tax to Value Added Tax (“VAT”) Transformation Pilot Program (“Pilot Program”) for certain industries in eight regions, including Beijing and Tianjin.

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On May 24, 2013, it was announced that commencing August 1, 2013 the Pilot Program will be expanded to all regions in PRC. VAT payable on goods sold or taxable labor services provided by a general VAT taxpayer for a taxable period is the net balance of the output VAT for the period after crediting the balance of VAT input. Hence, the amount of VAT payable does not result directly from output VAT generated from goods sold or taxable labor services provided. With the adoption of the Pilot Program, our online advertising revenues are subject to VAT. Our online advertising revenues are now recognized after deducting agent rebates and net of VAT and related surcharges.

Brand Advertising Revenues

Business Model

Currently the brand advertising business has two main types of pricing models, consisting of the Fixed Price Model and the Cost Per Impression (“CPM”) pricing model. Under the Fixed Price Model, a contract is signed to establish a fixed price for the advertising services to be provided. Under the CPM pricing model, the total contract amount for the advertising services is not fixed, but the unit price for each qualifying display is fixed. A qualifying display is defined as the appearance of an advertisement, where the advertisement meets criteria specified in the contract with the advertiser. Advertising fees are charged to the advertisers based on the unit prices and the number of qualifying displays. We provide advertisement placements to our advertisers on different Website channels and in different formats, which include, among other things, banners, links, logos, buttons, full screen, pre-roll, post-roll, and mid-roll video screens, as well as pause video screens.

Revenue Recognition

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

Before 2011, since almost all of the elements were delivered within one calendar quarter, we treated all elements of advertising contracts as one single unit of accounting for revenue recognition purposes. Commencing January 1, 2011, in accordance with *ASU No.2009-13*, we treat advertising contracts with multiple deliverable elements as separate units of accounting for revenue recognition purposes and to recognize revenue on a periodic basis during the contract when each deliverable service is provided. Since the contract price is for all deliverables, we allocate the arrangement consideration to all deliverables at the inception of the arrangement on the basis of their relative selling prices. Since the number of advertising contracts that covered more than one quarter and the revenues from advertising contracts that covered more than one quarter were immaterial compared to the total advertising contracts, the impact of adoption of *ASU No.2009-13* to us is immaterial.

Search and Others Revenues

Search and others services mainly include pay-for-click services, as well as online marketing services on the Sogou Web Directory.

Pay-for-click Services

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

Online Marketing Services on the Sogou Web Directory

Online marketing services on the Sogou Web Directory mainly consist of displaying advertiser Website links on the Web pages of the Sogou Web Directory. The Sogou Web Directory is a Chinese Web directory navigation site which serves as a key access point to popular and preferred Websites and applications. Revenue for online marketing services on the Sogou Web Directory is normally recognized on a straight-line basis over the contract period, provided our obligations under the contract have been met and all revenue recognition criteria have been met.

Sogou Website Alliance

Both pay-for-click services and online marketing services on the Sogou Web Directory expand distribution of advertisers’ Website links or advertisements by leveraging traffic on Sogou Website Alliance members’ Websites. We recognize gross revenue for the amount of fees we receive from advertisers. Payments made to Sogou Website Alliance members are included in cost of search and others revenues as traffic acquisition costs.

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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 we are acting as an agent in the transaction. For pay-for-click services we recognize gross revenue, as we have the primary responsibility for fulfillment and acceptability. Whether we are serving as principal or agent in a transaction is judgmental in nature and is determined by evaluating the terms of the arrangement. We pay Sogou Website Alliance members based on either revenue-sharing arrangements, under which we pay a percentage of pay-for-click revenues generated from clicks by users of their properties, or on a pre-agreed unit price.

Online Game Revenues

Our online game revenues are generated from MMOG operations revenues, Web game revenues and overseas licensing revenues.

MMOG operations revenues

Revenues are recorded net of applicable Business Tax, discounts and rebates to distributors.

Online game revenues from Changyou's current MMOG operations are earned by providing online services to players pursuant to the item-based revenue model. Under the item-based revenue model, the basic game play functions are free of charge and players are charged for purchases of in-game virtual items. Online game revenues are recognized over the estimated lives of the virtual items purchased or as the virtual items are consumed. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of our recording of the revenues would be impacted.

Game operations revenues are collected by Changyou's VIEs through the sale of Changyou's prepaid cards, which it sells in both virtual and physical forms to third-party distributors and players. Proceeds received from sales of prepaid cards are initially recorded as receipts in advance from customers and, upon activation or charge of the prepaid cards, are transferred from receipts in advance from customers to deferred revenues. As Changyou does not have control of, and generally does not know, the ultimate selling price of the prepaid cards sold by distributors, net proceeds from distributors form the basis of revenue recognition. Prepaid 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. Once the prepaid 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. Changyou is 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.

Web game revenue

Changyou began generating Web game revenue after its acquisition of a controlling interest in 7Road in May 2011. Through December 31, 2011, 7Road's revenues were derived entirely from revenue-sharing payments from third-party joint operators of its games and license fees from certain of these joint operators. Beginning in the year ended December 31, 2012, 7Road also derives revenues from direct operation of Wartune on its own Website for the game, which was launched in May 2012. The games developed by 7Road are operated primarily under the item-based revenue model, in which game players can access the games free of charge, but may purchase consumable virtual items, including those with a predetermined expiration time, or perpetual virtual items, such as certain costumes that stay bound to a game player throughout the life of the game. In certain of its joint operation arrangements, 7Road provides its games and related services to a third-party joint operator at no upfront fee. In these arrangements, 7Road is entitled to a single stream of revenue-sharing payments from the joint operator when game players convert the joint operator's virtual currency into 7Road's game coins or purchase its game coins directly through such operator's Websites or game platform. Certain of the joint operators pay 7Road license fees for the exclusive right to operate its games in specified geographic areas or upon achievement of certain performance milestones from the joint operators' operation of the games. Certain of the joint operators also pay 7Road license fees for the right to be among a selected few who will have the initial right ahead of other operators to jointly operate 7Road's games in China during a specified period after their launch.

When 7Road's games are jointly operated through the Websites or platforms of third-party joint operators, the games may be hosted either on the third-party operators' servers or on servers that 7Road owns or leases from Internet data centers. In its arrangements with third-party joint operators, 7Road views the third-party joint operators as its customers and does not view 7Road as the primary obligor, as it does not have the primary responsibility for fulfillment and acceptability of the game services. For 7Road's direct operation of its Web game Wartune through its Website for the game, 7Road is obligated to provide on-going services to the game players, and such obligation is not deemed to be inconsequential and perfunctory after game players purchase its game coins directly through its Website for Wartune. Therefore, 7Road's revenues from direct operation of Wartune on its Website for the game are first recorded by 7Road as deferred revenues and subsequently recognized as revenue over the service period during which 7Road is obligated to provide services to the game players to enable them to consume their virtual items.

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PRC tax authorities have determined that all of 7Road's game revenues from the joint operation of its games within China, which are generated through Shenzhen 7Road, are subject to 17% PRC VAT, and that Shenzhen 7Road, as a "Software Enterprise," is entitled to a 14% VAT refund immediately upon the filing of its VAT returns, with the result that 7Road's net effective PRC VAT rate is 3%. 7Road presents PRC VAT on a gross basis, by which VAT at the rate of 17% is included in revenues, and 7Road's net effective PRC VAT rate of 3% is included in cost of revenues, because Shenzhen 7Road's 17% VAT obligation and its entitlement to a 14% VAT refund are one integrated preferential VAT policy.

Overseas licensing revenue

Changyou enters into licensing arrangements with overseas licensees to operate its MMOGs in other countries or regions. These license agreements provide two revenue streams, consisting of an initial license fee and a monthly revenue-based royalty fee based on monthly revenue and sales from ancillary products of the games. The initial license fee is based on both a fixed amount and additional amounts receivable upon the games' achieving certain sales targets. Since Changyou is 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 the 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 when such additional amount is certain. The monthly revenue-based royalty fee is recognized when relevant services are delivered, provided that collectability is reasonably assured.

Mobile Revenues

Our mobile revenues are generated from the provision of mobile-related services through different types of mobile products to mobile phone users. The mobile products mainly consist of SMS, mobile games, RBT, mobile video and IVR. In order to deliver our products to mobile phone users, we sign contracts with China Mobile Communications Corporation, China United Network Communication Group Company Limited, China Telecom Corporation and their subsidiaries and other small mobile network operators (collectively, the "China mobile network operators"). We obtain fees from the China mobile network operators, which charge users on a monthly or per message /download basis for mobile services we provide. After the receipt of service fees from China mobile network operators, we make payments to third party mobile service alliance and content providers based on revenue-sharing arrangements.

Mobile revenues are recognized on gross or net basis, determined by evaluating the terms of the arrangement to determine whether we are serving as principal or agent in a transaction. To determine the amount of revenues to be recognized in the month in which the service is performed, provided that no significant obligations remain, we rely on billing confirmations issued by the China mobile network operators. If at the end of each reporting period, an operator has not yet issued such billing confirmations, we estimate the amount of collectable mobile service fees and recognize revenue. When we later receive billing confirmations, we record a true-up accounting adjustment. For the three months ended June 30, 2013, 68% of our estimated mobile revenues were confirmed by billing confirmations received from the China mobile network operators. Generally, (i) within 15 to 120 days after the end of each month, we receive billing confirmations from the operators and (ii) within 30 to 180 days after delivering billing confirmations, each operator remits the mobile service fees, net of its service fees, to us.

Others Revenues

Others revenues are primarily generated from our business of offering IVAS with respect to Web games developed by third-party developers under revenue-sharing arrangements with the developers, offering cinema advertisement slots to be shown in theaters before the screening of movies, and sub-licensing of licensed video content to third parties.

Revenues from IVAS

We offer Web games developed by third-party developers and generate revenues from the provision of IVAS, including promotion, access maintenance and payment services, to third-party developers. Under revenue-sharing agreements that we sign with third-party developers, we collect payments from the end users, keep a pre-agreed percentage of the proceeds and remit the balance to the third-party developers. Revenues from IVAS are recognized when our obligations under the agreements and all other revenue recognition criteria have been met.

Revenues from cinema advertisements

For cinema advertising services, a contract is signed with the advertiser to establish a fixed price and specify the advertising services to be provided. Pursuant to the contracts, we provide advertisement placements in advertising slots to be shown in theatres before the screening of movies. When all the recognition criteria are met, revenues from cinema advertising are recognized under either the proportional performance method or the straight-line method, depending on the terms of the customer contract. Under the proportional performance method, revenues are generally recognized based on a percentage of the advertising slots actually delivered. Under the straight-line method, revenues are recognized on a straight-line basis over the contract period.

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Revenues from sub-licensing of licensed video content

For licensed video content purchased on an exclusive basis, we have rights to sub-license to other platforms. Revenues from sub-licensing of licensed video content are recognized when the content is available for immediate and unconditional delivery under an existing sub-licensing arrangement, the sub-license period has begun and the sub-licensing fee is fixed or determinable and collection of the sub-licensing fee is reasonably assured.

Share-based Compensation Expense

Sohu, Changyou, Sogou, Sohu Video and 7Road all have incentive plans for the granting of share-based awards, including common stock /ordinary shares, share options, restricted shares and restricted share units, to their executive officers, management and employees.

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

Sohu, Changyou, and Sogou share-based awards

For Sohu share-based awards, in determining the fair value of share options granted, the Black-Scholes valuation model is applied; in determining the fair value of restricted share units granted, the public market price of the underlying shares on the grant dates is applied.

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

For Sogou share-based awards, in determining the fair value of share options granted, the income approach /discounted cash flow method with a discount for lack of marketability was applied, given that the shares underlying the awards were not publicly traded at the time of grant.

Share-based compensation expense for the ordinary shares granted is fully recognized in the quarter during which these ordinary shares are granted. For share options, restricted shares and restricted share units granted with respect to Sohu shares and with respect to Changyou shares, compensation expense is recognized on an accelerated basis over the requisite service period. For share options granted with respect to Sogou shares, compensation expense is recognized on a straight-line basis over the estimated period during which the service period requirement and performance target will be met. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and the related compensation expense is not recorded for that number of awards.

Sohu Video share-based awards

On January 4, 2012, Sohu Video, the holding entity of Sohu's video division, adopted a 2011 Share Incentive Plan (the "Video 2011 Share Incentive Plan") which provides for the issuance of up to 25,000,000 ordinary shares of Sohu Video (amounting to 10% of the outstanding Sohu Video shares on a fully-diluted basis) to management and key employees of the video division and to Sohu management. As of June 30, 2013, grants of options for the purchase of 15,352,200 of ordinary shares of Sohu Video had been made and were effective under the Video 2011 Share Incentive Plan.

For purposes of ASC 718, no grant date may be established until mutual understanding of the option awards' key terms and conditions between Sohu Video and the recipients can be reached, and such mutual understanding cannot be reached until the enterprise value of Sohu Video and hence the fair value of the options is determinable and can be accounted for.

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Management concluded that as of June 30, 2013 certain significant factors necessary to determine the fair value of Sohu's video division remained uncertain. On the basis that the broader terms and conditions of the option awards had neither been finalized nor mutually agreed with the recipients, no grant of options occurred for purposes of ASC 718 and hence no share-based compensation expense was recognized for the three months ended June 30, 2013.

7Road share-based awards

On July 10, 2012, 7Road adopted a 2012 Share Incentive Plan (the "7Road 2012 Share Incentive Plan"), which initially provided for the issuance to selected directors, officers, employees, consultants and advisors of 7Road of up to 5,100,000 ordinary shares of 7Road (amounting to 5.1% of the then outstanding 7Road shares on a fully-diluted basis). On November 2, 2012, 7Road's Board of Directors and its shareholders approved an increase from 5,100,000 to 15,100,000 ordinary shares (amounting to 13.7% of the then outstanding 7Road shares on a fully-diluted basis) under the 7Road 2012 Share Incentive Plan.

On May 1, 2013, Changyou entered into an agreement to acquire all of the outstanding ordinary shares of 7Road held by the noncontrolling shareholders, representing 28.074% of the outstanding share capital of 7Road. The acquisition closed on June 5, 2013.

On June 28, 2013, 7Road's Board of Directors approved the cancellation of the 7Road 2012 Share Incentive Plan. 7Road concurrently offered to a total of 42 7Road employees holding an aggregate of 2,223,750 restricted share units which had been granted under the 7Road 2012 Share Incentive Plan the right to exchange their restricted share units for, at each employee's election, in each case subject to the employee's continued employment by 7Road, either (i) the right to a cash payment of up to an aggregate of \$2.90 per restricted share unit exchanged, vesting and payable at the rate of 40%, 30% and 30%, respectively, on the first, second and third anniversaries of July 18, 2012, which is the date when the surrendered restricted share units were granted under the 7Road 2012 Share Incentive Plan, or (ii) the right to receive an annual cash bonus, over a seven-year period commencing July 1, 2013, based on adjusted annual cumulative net income of 7Road. All restricted share units held by these 42 holders under the 7Road 2012 Share Incentive Plan as of June 28, 2013 were included in this exchange program.

As the original awards of restricted share units made under the 7Road 2012 Share Incentive Plan included as a vesting condition the completion of an initial public offering, which is not considered probable under it occurs, no share-based compensation expense was recognized for the fair value of the original awards. As of the date of the modification resulting from the exchange program, incremental compensation expense, which is not classified as share-based compensation expense, will be the fair values of the two new compensation schemes included in the exchange program. Under Scheme I, the modification resulted in total incremental compensation expense of \$5.7 million, which will be recognized in the consolidated statements of comprehensive income ratably over the remaining vesting period of the awards for each tranche. For the three months ended June 30, 2013, compensation expense of \$2.5 million was recognized in the consolidated statements of comprehensive income. For scheme II, the incremental compensation expense will vary depending on 7Road's future financial performance.

Taxation

Income Taxes

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

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

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PRC Withholding Tax on Dividends

The CIT Law imposes a 10% withholding income tax for dividends distributed by foreign invested enterprises to their immediate holding companies outside mainland China. A lower withholding tax rate will be applied if there is a tax treaty between mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under the Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital, (the “China-HK Tax Arrangement”), if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend may remain subject to a withholding tax rate of 10%.

Changyou’s Board of Directors determined to cause one of Changyou’s PRC subsidiaries to distribute all of its 2012 earnings and a portion of its 2013 earnings, respectively, to its overseas parent company, Changyou.com HK Limited (“Changyou HK”). Based on an assessment performed pursuant to requirements specified by PRC tax authorities, Changyou concluded that it was more likely than not that such distribution would be subject to 5% withholding tax. As of June 30, 2013, Changyou had accrued deferred tax liabilities in the amount of \$15.4 million for withholding taxes associated with this distribution plan.

Uncertain Tax Positions

In order to assess uncertain tax positions, we apply a more likely than not threshold and a two-step approach for tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

Transition from PRC Business Tax to PRC Value Added Tax

Effective September 1, 2012, the Pilot Program for transition from the imposition of Business Tax to the imposition of VAT for revenues from certain industries was expanded from Shanghai to eight other cities and provinces in China, including Beijing and Tianjin. On May 24, 2013, it was announced that commencing August 1, 2013 the Pilot Program will be expanded to all regions in PRC. Our brand advertising and search revenues are subject to this program.

Business Tax had been imposed primarily on revenues from the provision of taxable services, assignments of intangible assets and transfers of real estate. Prior to the implementation of the pilot program, our Business Tax rate, which varies depending upon the nature of the revenues being taxed, generally ranged from 3% to 5%.

VAT payable on goods sold or taxable labor services provided by a general VAT taxpayer for a taxable period is the net balance of the output VAT for the period after crediting the balance of VAT input. Before the implementation of the Pilot Program, we were mainly subject to a small amount of VAT for revenues of Changyou’s subsidiary 7Road that are deemed for PRC tax purposes to be derived from the sale of software. VAT has been imposed on those 7Road revenues at a rate of 17%, with a 14% immediate tax refund, resulting in a net rate of 3%. With the implementation of the Pilot Program, in addition to the 7Road revenues, our brand advertising and search revenues are now subject to VAT at a rate of 6%.

Under ASC 605-45, the presentation of taxes on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy decision determined by management. As VAT imposed on brand advertising and search revenues and VAT imposed on 7Road’s revenues from the sale of software are considered as substantially different in nature, we determined that it is reasonable to apply the guidance separately for these two types of VAT. The basis for this determination is that VAT payable on brand advertising and search revenues is the difference between the output VAT (at a rate of 6%) and available input VAT amount (at the rate applicable to the supplier), which is a component of our costs for providing the brand advertising and search services. On the other hand, VAT payable by 7Road is in effect at 3% of the applicable revenues from the sale of software, irrespective of the availability of any input VAT, under preferential VAT treatment provided to 7Road by the local tax bureau. In this regard, we believe the VAT payable by 7Road is more akin to a sales tax than typical VAT. As a result, we adopted the net presentation method for our brand advertising and search businesses both before and after the implementation of the Pilot Program, and for the revenues of 7Road deemed to be derived from the sale of software we adopted the gross presentation method before and after the implementation of the Pilot Program.

U.S. Corporate Income Tax

Sohu.com Inc. is a Delaware corporation that is subject to U.S. corporate income tax on its taxable income at a rate of 34% or 35%. Subject to certain limitations, the net operating losses (“NOLs”) of a corporation taxable in the U.S. that are carried forward from prior years may be used to offset the corporation’s taxable income. As of the end of the 2012 taxable year, Sohu.com Inc. had no further NOLs available for offsetting any U.S. taxable income. Accordingly, to the extent that Sohu.com Inc. has U.S. taxable income in 2013, we will accrue U.S. corporate income tax in our consolidated statements of comprehensive income and make estimated tax payments as and when required by U.S. law.

Net Income per Share

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 or settlement of share-based awards. Potential common shares are accounted for in the computation of diluted earnings per share using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e., an increase in earnings per share amounts or a decrease in loss per share amounts) on net income per share. Additionally, for purposes of calculating the numerator of diluted net income per share, the net income attributable to Sohu is adjusted as follows:

- (1) Changyou's net income attributable to Sohu is determined using the percentage that the weighted average number of Changyou shares held by Sohu represents of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, instead of by the percentage held by Sohu of the total economic interest in Changyou, which is used for the calculation of basic net income per share.
- (2) Sogou's net income/(loss) attributable to Sohu is determined using the percentage that the weighted average number of Sogou shares held by Sohu represents of the weighted average number of Sogou ordinary shares and Series A Preferred Shares, shares issuable upon the conversion of convertible preferred shares under the if-converted method, and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, instead of by Sogou's net income/(loss) allocated to Sohu by virtue of the Sogou Series A Terms, the terms of the restructuring and Sohu's purchase of Sogou Series A Preferred Shares from Alibaba, which is used for the calculation of basic net income per share.

Fair Value of Financial Instruments

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1—observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—include other inputs that are directly or indirectly observable in the market place.

Level 3—unobservable inputs which are supported by little or no market activity.

Our financial instruments include cash equivalents, restricted time deposits, short-term investments, investments in debt securities, accounts receivable, prepaid and other current assets, prepaid non-current assets, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, long-term accounts payable and long-term bank loans.

Cash Equivalents

Our cash equivalents mainly consist of time deposits placed with banks with an original maturity of three months or less.

Restricted time deposits

Restricted time deposits are valued based on the prevailing interest rates in the market.

Changyou loans from offshore banks, secured by time deposits

As of June 30, 2013 we had, through Changyou, loans from offshore banks. These loans are secured by RMB deposits in onshore branches of those banks. The loans from the offshore branches of the lending banks are classified as short-term bank loans or long-term bank loans based on their repayment period. The rates of interest under the loan agreements with the lending banks were determined based on the prevailing interest rates in the market. The RMB onshore deposits securing the offshore loans are treated as restricted time deposits on our consolidated balance sheets.

Collateral related to Sogou incentive shares trust arrangements

In February 2013, we deposited \$9 million in cash into restricted time deposit accounts at a bank as collateral for credit facilities provided by the bank to certain Sogou employees. The facilities are intended to fund the employees' early exercise of Sogou share options and related PRC individual income tax. We are not subject to any additional potential payments other than the restricted time deposit amounts, and believe that the fair value of our guarantee liability is immaterial.

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Short-term Investments

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

Investments in Debt Securities

We invest our excess cash in certain debt securities of high-quality corporate issuers. We elected the fair value option to account for our investments in debt securities at their initial recognition. Changes in the fair value are reflected in the consolidated statements of comprehensive income as other income/(expense). The fair value election was made to mitigate accounting mismatches and to achieve operational simplifications.

Accounts Receivable, Net

The carrying value of accounts receivable is reduced by an allowance that reflects our best estimate of the amounts that will not be collected. We make estimations of the collectability of accounts receivable. Many factors are considered in estimating the general allowance, including reviewing delinquent accounts receivable, performing an aging analysis and a customer credit analysis, and analyzing historical bad debt records and current economic trends. Additional allowance for specific doubtful accounts might be made if the financial conditions of our customers or the China mobile network operators deteriorate or the China mobile network operators are unable to collect fees from their end customers, resulting in their inability to make payments due to us.

Equity Investments

Investments in entities over which we do not have significant influence are recorded as equity investments and are accounted for by the cost method. Investments in entities over which we have significant influence but do not control are also recorded as equity investments and are accounted for by the equity method. Under the equity method, our share of the post-acquisition profits or losses of the equity investment is recognized in our consolidated statements of comprehensive income; and our share of post-acquisition movements in equity investments is recognized in equity in our consolidated balance sheets. Unrealized gains on transactions between us and our equity investees are eliminated to the extent of the interest in the equity investments. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When our share of losses in an equity investment equals or exceeds our interest in the equity investment, we do not recognize further losses, unless we have incurred obligations or made payments on behalf of the equity investee.

Long-Lived Assets

Long-lived assets include fixed assets, intangible assets and prepaid non-current assets.

Fixed Assets

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

In May 2013, the office building Sohu purchased in 2009 was placed in service. Accordingly, in the same month, we recognized the office building's original cost of \$162 million as fixed assets. The original cost consists primarily of the purchase price and the costs of technological infrastructure and fitting-out work. Also in May 2013, we began recognizing depreciation expense based on the building's useful life, which is approximately 41 years, on a straight-line basis.

For Changyou's office building purchased in 2010, as of June 30, 2013, \$144 million had been paid and recognized as construction-in-process under fixed assets in our consolidated balance sheets, as the construction work of the building had been completed and the technological infrastructure and fitting-out work was still in progress.

Expenditure for maintenance and repairs is expensed as incurred.

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

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Intangible Assets

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

We amortize licensed video content over the shorter of the term of the estimated period over which the benefits of the license agreement will be enjoyed based on the trend of accumulation of viewership or the applicable license period. Beginning in the third quarter of 2011, licensed video content is amortized on an accelerated basis based on the viewership accumulation trend over the shorter of the term of the estimated period over which the benefits of the license contract will be enjoyed or the applicable license period. For exclusively licensed video content which we sub-licensed to similar platforms in return for payment in cash, we allocate a portion of the video content cost from cost of brand advertising revenues to sub-licensing cost. The allocation is based on the revenues to be generated through sub-licensing. We amortize sub-licensing cost using the individual-film-forecast-computation method, which amortizes such costs in the same ratio that actual sub-licensing revenue bears as of the current period end to the total of the actual revenue earned and the estimated remaining unrecognized ultimate revenue.

Prepaid non-current Assets

Prepaid non-current assets primarily include prepaid PRC income tax arising from the sale of certain assets associated with the 17173 Business by Sohu to Changyou. Since the sale of the 17173 Business was between entities that are included in our consolidated financial statements, it was considered an “intra-entity transaction” and, under *ASC 810-10*, income taxes paid should be deferred. Accordingly, we recorded income tax related to the sale of the 17173 Business as prepaid PRC income tax. The prepaid PRC income tax will be amortized over the period of the weighted average remaining life of the 17173 Business-related assets sold to Changyou.

Impairment of Long-lived Assets

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

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of our acquisitions of interests in our subsidiaries and consolidated VIEs.

We test goodwill for impairment at the reporting unit level on an annual basis as of October 1, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. Commencing in September 2011, we adopted the Financial Accounting Standards Board (“FASB”) revised guidance on “Testing of Goodwill for Impairment.” Under this guidance, we have the option to choose whether we will apply the qualitative assessment first and then the quantitative assessment, if necessary, or to apply the quantitative assessment directly. For reporting units applying a qualitative assessment first, we start the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If we determine that it is more-likely-than-not the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of goodwill with its carrying value. For reporting units directly applying the quantitative assessment, we perform the goodwill impairment test by quantitatively comparing the fair values of those reporting units to their carrying amounts.

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

Mezzanine Equity

On May 11, 2011, Changyou, through its VIE Gamease, acquired 68.258% of the equity interests of Shenzhen 7Road and began to consolidate Shenzhen 7Road’s financial statements on June 1, 2011.

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On June 21, 2012, 7Road's then Chief Executive Officer surrendered to 7Road, without consideration, ordinary shares of 7Road representing 5.1% of the then outstanding share capital of 7Road. As a result, the noncontrolling interest decreased to 28.074% of 7Road and Changyou's interest in 7Road increased to 71.926%.

Our Mezzanine Equity consists of noncontrolling interest in 7Road and a put option pursuant to which the noncontrolling shareholders would have the right to put their ordinary shares in 7Road to Changyou at a pre-determined price if 7Road achieved specified performance milestones before the expiration of the put option and 7Road did not complete an initial public offering on NASDAQ, the NYSE or the HKEX. The put option was due to expire in 2014. Since the occurrence of the sale was not solely within the control of Changyou, we classify the noncontrolling interest as mezzanine equity instead of permanent equity in our and Changyou's consolidated financial statements.

Under ASC 480-10, we calculate, on an accumulative basis from the acquisition date, (i) the amount of accretion that would increase the balance of noncontrolling interest to its estimated redemption value over the period from the date of the Shenzhen 7Road acquisition to the earliest redemption date of the noncontrolling interest in 7Road and (ii) the amount of net profit attributable to noncontrolling shareholders of 7Road based on their ownership percentage. The carrying value of the noncontrolling interest as mezzanine equity is adjusted by an accumulative amount equal to the higher of (i) and (ii).

On May 1, 2013, Changyou entered into an agreement to acquire all of the ordinary shares of 7Road held by the noncontrolling shareholders. The acquisition closed on June 5, 2013. Under ASC 810-10, changes in a parent's ownership interest while the parent retains control of its subsidiary are accounted for as equity transactions, and do not impact net income or comprehensive income in the consolidated financial statements. Following the closing of the acquisition, \$2.4 million, representing the excess of the amount of the mezzanine-classified noncontrolling interest in 7Road over the purchase price as of the closing date, was recorded in our equity accounts.

For the three and six months ended June 30, 2013, accretion charges of \$7.1 million and \$17.8 million, respectively, compared to \$1.1 million and \$2.2 million, respectively, for the three and six months ended June 30, 2012, were recorded in our statements of comprehensive income as net income attributable to the mezzanine-classified noncontrolling interest shareholders of 7Road.

Comprehensive Income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented on our consolidated balance sheets, includes a cumulative foreign currency translation adjustment.

Functional Currency and Foreign Currency Translation

Functional Currency

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

Foreign Currency Translation

Assets and liabilities of our China-based subsidiaries and VIEs, the United Kingdom, Malaysia and Korea are translated into U.S. dollars, our reporting currency, at the exchange rate in effect at the balance sheets date and revenues and expenses are translated at the average exchange rates in effect during the reporting period. Foreign currency translation adjustments are not included in determining net income for the period but are accumulated in a separate component of equity in our consolidated balance sheets.

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

RESULTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012

Reclassification of revenues and costs related to Changyou IVAS

Commencing January 1, 2013, in order to provide a better foundation for understanding Changyou's performance, both revenues and costs generated from the operation of third-party Web games by the 17173 business were reclassified from the online game business to IVAS in the others business. To conform to current period presentations, the relevant amounts for prior periods have been reclassified accordingly. Such reclassifications amounted to \$1.2 million and \$2.7 million, respectively, for revenues and \$0.4 million and \$1.0 million for costs, respectively, for the three and six months ended June 30, 2012.

Revenues

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

	Three Months Ended June 30,			Six Months Ended June 30,						
	2013	2012	2013 vs 2012	2013	2012	2013 vs 2012				
Revenues										
Online advertising:										
Brand advertising	\$ 100,191	29%	\$ 69,312	27%	\$ 30,879	\$ 180,428	28%	\$ 130,280	27%	\$ 50,148
Search and others	46,171	14%	28,763	11%	17,408	82,223	13%	50,400	10%	31,823
Subtotal of online advertising Revenues	146,362	43%	98,075	38%	48,287	262,651	41%	180,680	37%	81,971
Online game	168,295	50%	135,956	53%	32,339	335,716	52%	261,924	55%	73,792
Mobile	15,313	4%	15,598	6%	(285)	29,086	4%	28,949	6%	137
Others	8,934	3%	6,098	3%	2,836	19,047	3%	10,778	2%	8,269
Total revenues	\$ 338,904	100%	\$ 255,727	100%	\$ 83,177	\$ 646,500	100%	\$ 482,331	100%	\$ 164,169

Total revenues were \$338.9 million and \$646.5 million, respectively, for the three and six months ended June 30, 2013, compared to \$255.7 million and \$482.3 million, respectively, for the corresponding periods in 2012. The increase in total revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$83.2 million, and the increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$164.2 million. The increases were mainly attributable to increases in online advertising revenues and online game revenues.

Online Advertising Revenues

Online advertising revenues were \$146.4 million and \$262.7 million, respectively, for the three and six months ended June 30, 2013, compared to \$98.1 million and \$180.7 million, respectively, for the corresponding periods in 2012. The increase in online advertising revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$48.3 million, and the increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$82.0 million. The increases were mainly attributable to increases in brand advertising revenues and search and others revenues.

Brand Advertising Revenues

Brand advertising revenues were \$100.2 million and \$180.4 million, respectively, for the three and six months ended June 30, 2013, compared to \$69.3 million and \$130.3 million, respectively, for the corresponding periods in 2012. The increase in brand advertising revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$30.9 million, and the increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$50.1 million. The increases were mainly attributable to an increase in revenues from the sectors of real estate and fast-moving consumer goods industries.

We expect brand advertising revenues to increase in the third quarter of 2013, compared to the second quarter of 2013.

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Search and Others Revenues

Search and others revenues were \$46.2 million and \$82.2 million, respectively, for the three and six months ended June 30, 2013, compared to \$28.8 million and \$50.4 million, respectively, for the corresponding periods in 2012. The increase in search and others revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$17.4 million, and the increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$31.8 million. The increases were mainly contributed by pay-for-click services, as well as online marketing services on the Sogou Web Directory, both as a result of increased traffic and improved monetization of traffic.

We expect search and others revenues to increase in the third quarter of 2013, compared to the second quarter of 2013.

Online Game Revenues

Online game revenues were \$168.3 million and \$335.7 million, respectively, for the three and six months ended June 30, 2013, compared to \$136.0 million and \$261.9 million, respectively, for the corresponding periods in 2012. The increase in online game revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$32.3 million, and the increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$73.8 million. The increases were mainly due to the growth of TLBB and Wartune in the second quarter of 2013.

We expect online game revenues to decrease in the third quarter of 2013, compared to the second quarter of 2013.

Mobile Revenues

Mobile revenues were \$15.3 million and \$29.1 million, respectively, for the three and six months ended June 30, 2013, compared to \$15.6 million and \$28.9 million, respectively, for the corresponding periods in 2012. The decrease in mobile revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$0.3 million, and the increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$0.2 million.

We expect mobile revenues to be flat in the third quarter of 2013 compared to the second quarter of 2013.

Others Revenues

Revenues for other services were \$8.9 million and \$19.0 million, respectively, for the three and six months ended June 30, 2013, compared to \$6.1 million and \$10.8 million, respectively, for the corresponding periods in 2012. The increase in others revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$2.8 million, and the increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$8.2 million. The increases were mainly due to increased revenues from IVAS and the cinema advertisement business.

Costs and Expenses

Cost of Revenues

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

	Three Months Ended June 30,			Six Months Ended June 30,						
	2013	2012	2013 vs 2012	2013	2012	2013 vs 2012				
Cost of revenues:										
Online advertising:										
Brand advertising	\$ 51,556	45%	\$50,963	51%	\$ 593	\$ 96,434	44%	\$ 87,855	49%	\$ 8,579
Search and others	24,498	22%	16,192	16%	8,306	45,290	21%	29,320	16%	15,970
Subtotal of cost of online advertising revenues	76,054	67%	67,155	67%	8,899	141,724	65%	117,175	65%	24,549
Online game	22,981	20%	17,891	18%	5,090	45,630	21%	33,722	19%	11,908
Mobile	8,963	8%	10,208	10%	(1,245)	18,235	9%	19,061	11%	(826)
Others	5,647	5%	4,590	5%	1,057	11,585	5%	9,408	5%	2,177
Total cost of revenues	<u>\$113,645</u>	100%	<u>\$99,844</u>	100%	<u>\$13,801</u>	<u>\$217,174</u>	100%	<u>\$179,366</u>	100%	<u>\$37,808</u>

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Total cost of revenues was \$113.6 million and \$217.2 million, respectively, for the three and six months ended June 30, 2013, compared to \$99.8 million and \$179.4 million, respectively, for the corresponding periods in 2012. The increase in cost of revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$13.8 million, and the increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$37.8 million. The increases were mainly attributable to increases in cost of online advertising revenues and cost of online game revenues.

Cost of Online Advertising Revenues

Cost of online advertising revenues was \$76.1 million and \$141.7 million, respectively, for the three and six months ended June 30, 2013, compared to \$67.2 million and \$117.2 million, respectively, for the corresponding periods in 2012. The increase in cost of online advertising revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$8.9 million, and the increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$24.5 million. The increases were mainly attributable to increases in cost of search and others revenues.

Cost of Brand Advertising Revenues

Cost of brand advertising revenues mainly consists of content and license costs (including amortization of licensed video content and impairment of purchased video content), bandwidth leasing costs, salary and benefits expenses, and depreciation expenses.

Cost of brand advertising revenues was \$51.6 million and \$96.4 million, respectively, for the three and six months ended June 30, 2013, compared to \$51.0 million and \$87.9 million, respectively, for the corresponding periods in 2012.

The increase in cost of brand advertising revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$0.6 million. The increase mainly consisted of a \$6.6 million increase in amortization of content and license costs, a \$4.4 million increase in salary and benefits expenses, a \$2.4 million increase in bandwidth leasing costs, and a \$2.2 million increase in depreciation expenses, offset by a \$15.3 million impairment of purchased video content in the second quarter of 2012.

The increase in cost of brand advertising revenues from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$8.5 million. The increase mainly consisted of a \$10.1 million increase in amortization of content and license costs, a \$7.9 million increase in salary and benefits expenses, a \$3.0 million increase in depreciation expenses, and a \$2.9 million increase in bandwidth leasing costs, offset by a \$15.3 million impairment of purchased video content in the second quarter of 2012.

Our brand advertising gross margin was 49% and 47%, respectively, for the three and six months ended June 30, 2013, as compared to 26% and 33%, respectively, for the corresponding periods in 2012. The increase in our brand advertising gross margin was mainly due to a \$15.3 million impairment of purchased video content that we recognized in the second quarter of 2012, and relatively slower growth in the rate of brand advertising costs compared with the growth in revenues.

Cost of Search and Others Revenues

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

Cost of search and others revenues was \$24.5 million and \$45.3 million, respectively, for the three and six months ended June 30, 2013, compared to \$16.2 million and \$29.3 million, respectively, for the corresponding periods in 2012.

The increase in cost of search and others revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$8.3 million. The increase mainly consisted of a \$5.2 million increase in traffic acquisition costs, a \$1.7 million increase in bandwidth leasing costs along with increased traffic volume, and a 1.1 million increase in depreciation expenses.

The increase in cost of search and others revenues from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$16.0 million. The increase mainly consisted of a \$10.2 million increase in traffic acquisition costs, a \$2.5 million increase in depreciation expenses, and a \$2.5 million increase in bandwidth leasing costs along with increased traffic volume.

Our search and others gross margin was 47% and 45%, respectively, for the three and six months ended June 30, 2013, as compared to 44% and 42%, respectively, for the corresponding periods in 2012. The increase in our search and others gross margin was mainly due to higher revenues from increased traffic and the improved monetization of traffic, as well as traffic acquisition costs constituting a lower percentage of search and others revenues.

Cost of Online Game Revenues

Cost of online game revenues mainly consists of salary and benefits expenses, bandwidth leasing costs, depreciation and amortization expenses, Business Tax and VAT arising from transactions between Changyou's subsidiaries and its VIEs, and revenue-based royalty payments to game developers.

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Cost of online game revenues was \$23.0 million and \$45.6 million, respectively, for the three and six months ended June 30, 2013, compared to \$17.9 million and \$33.7 million, respectively, for the corresponding periods in 2012.

The increase in cost of online game revenues from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$5.1 million. The increase mainly consisted of a \$2.2 million increase in salary and benefits expenses, a \$1.4 million increase in bandwidth leasing costs, and a \$1.3 million increase in Business Tax and 7Road VAT.

The increase in cost of online game revenues from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$11.9 million. The increase mainly consisted of a \$5.5 million increase in salary and benefits expenses, a \$2.7 million increase in Business Tax and 7Road VAT, and a \$2.6 million increase in bandwidth leasing costs.

Our online game gross margin was 86% for both the three months and the six months ended June 30, 2013, as compared to 87% for both of the corresponding periods in 2012.

Cost of Mobile Revenues

Cost of mobile revenues mainly consists of revenue-sharing payments (which include payments to third party mobile service alliances and content providers), collection charges and transmission fees paid to China mobile network operators, bandwidth leasing costs and depreciation expenses.

Cost of mobile revenues was \$9.0 million and \$18.2 million, respectively, for the three and six months ended June 30, 2013, compared to \$10.2 million and \$19.1 million, respectively, for the corresponding periods in 2012. The decrease in cost of mobile revenues from the three and six months ended June 30, 2012 to the three and six months ended June 30, 2013 was \$1.2 million and \$0.9 million, respectively. The decreases were mainly due to decreased collection charges and transmission fees paid to China mobile network operators.

The collection charges and transmission fees varied between China mobile network operators. The collection charges and transmission fees mainly include (i) a gateway fee of \$0.008 to \$0.032 per message in both the second quarter of 2013 and 2012, depending on the volume of the monthly total mobile messages, and (ii) a collection fee of 15% to 87% of total fees collected by China mobile network operators from mobile phone users (with the residual paid to us) in both the second quarter of 2013 and 2012.

Our mobile gross margin was 41% and 37%, respectively, for the three and six months ended June 30, 2013, as compared to 35% and 34%, respectively, for the corresponding periods in 2012. The increases in our mobile gross margin were mainly due to decreased collection charges.

Cost of Revenues for Other Services

Cost of revenues for other services mainly consists of payments to theatres and film production companies for pre-film screening advertisement slots, revenue-sharing payments related to IVAS business, and amortization of sub-licensing cost.

Cost of revenues for other services was \$5.6 million and \$11.6 million, respectively, for the three and six months ended June 30, 2013, compared to \$4.6 million and \$9.4 million, respectively, for the corresponding periods in 2012. The increase in cost of revenues for other services from the three and six months ended June 30, 2012 to the three and six months ended June 30, 2013 was \$1.0 million and \$2.2 million, respectively. The increases were mainly due to payments for the cinema advertisement business and amortization of sub-licensing cost.

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Operating Expenses

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

	Three Months Ended June 30,			Six Months Ended June 30,						
	2013	2012	2013 vs 2012	2013	2012	2013 vs 2012				
Operating expenses:										
Product development	\$ 63,361	39%	\$ 43,340	38%	\$20,021	\$ 115,180	39%	\$ 81,933	39%	\$33,247
Sales and marketing	71,678	45%	48,999	43%	22,679	130,401	45%	87,653	42%	42,748
General and administrative	25,772	16%	17,508	16%	8,264	48,361	16%	35,302	17%	13,059
Impairment of intangible assets via acquisition of businesses (1)	0	0%	2,906	3%	(2,906)	0	0%	2,906	2%	(2,906)
Total operating expenses	<u>\$160,811</u>	100%	<u>\$112,753</u>	100%	<u>\$48,058</u>	<u>\$293,942</u>	100%	<u>\$207,794</u>	100%	<u>\$86,148</u>

Note (1): In the second quarter of 2012, we recognized a \$2.9 million impairment loss in Changyou for intangible assets recognized from acquired businesses.

Total operating expenses were \$160.8 million and \$293.9 million, respectively, for the three and six months ended June 30, 2013, compared to \$112.8 million and \$207.8 million, respectively, for the corresponding periods in 2012. The increase in operating expenses from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$48 million, and the increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$86.1 million. The increases were mainly due to increases in sales and marketing expenses and product development expenses.

Product Development Expenses

Product development expenses mainly consist of personnel-related expenses incurred for enhancement and maintenance of our Websites, and costs associated with new product development and maintenance, as well as enhancement of existing products and services, which mainly include the development costs of online games prior to the establishment of technological feasibility and maintenance costs after the online games are available for marketing.

Product development expenses were \$63.4 million and \$115.2 million, respectively, for the three and six months ended June 30, 2013, compared to \$43.3 million and \$81.9 million, respectively, for the corresponding periods in 2012.

The increase in product development expenses from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$20.1 million. The increase mainly consisted of a \$17.1 million increase in salary and benefits expenses, which was mainly attributable to an increased number of employees and increased average compensation, a \$0.8 million increase in professional fees, offset by a \$1.1 million decrease in share-based compensation expense.

The increase in product development expenses from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$33.3 million. The increase mainly consisted of a \$30.7 million increase in salary and benefits expenses, which was mainly attributable to an increased number of employees and increased average compensation, a \$1.2 million increase in professional fees, offset by a \$2.0 million decrease in share-based compensation expense.

Sales and Marketing Expenses

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

Sales and marketing expenses were \$71.7 million and \$130.4 million, respectively, for the three and six months ended June 30, 2013, compared to \$49.0 million and \$87.7 million, respectively, for the corresponding periods in 2012.

The increase in sales and marketing expenses from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$22.7 million. The increase mainly consisted of a \$10.5 million increase in advertising and promotional expenditures, a \$9.8 million increase in salary and benefits expenses, which was mainly attributable to an increased number of employees and increased average compensation, and a \$2.2 million increase in travel expenses.

The increase in sales and marketing expenses from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$42.7 million. The increase mainly consisted of a \$20.6 million increase in advertising and promotional expenditures, an \$18.2 million increase in salary and benefits expenses, which was mainly attributable to an increased number of employees and increased average compensation, and a \$3.4 million increase in travel expenses.

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General and Administrative Expenses

General and administrative expenses mainly consist of salary and benefits expenses, professional service fees, travel expenses, and facility expenses.

General and administrative expenses were \$25.8 million and \$48.4 million, respectively, for the three and six months ended June 30, 2013, compared to \$17.5 million and \$35.3 million, respectively, for the corresponding periods in 2012.

The increase in general and administrative expenses from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$8.3 million. The increase mainly consisted of a \$6.1 million increase in salary and benefits expenses, which was mainly attributable to an increased number of employees and increased average compensation, a \$2.6 million increase in professional service fees, and a \$1.1 million increase in travel expenses, offset by a \$0.9 million decrease in share-based compensation expense, and a \$0.8 million decrease in bad debt expense.

The increase in general and administrative expenses from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$13.1 million. The increase mainly consisted of an \$8.7 million increase in salary and benefits expenses, which was mainly attributable to an increased number of employees and increased average compensation, a \$6.2 million increase in professional service fees, and a \$2.3 million increase in travel expenses, offset by a \$3.7 million decrease in bad debt expense, and a \$1.4 million decrease in share-based compensation expense.

Share-based Compensation Expense

Sohu, Changyou, Sogou, Sohu Video and 7Road all have incentive plans for the granting of share-based awards, including common stock /ordinary shares, share options, restricted shares and restricted share units, to their employees and directors.

Share-based compensation expense was recognized in costs and/or expenses for the three and six months ended June 30, 2013 and June 30, 2012, respectively, as follows (in thousands):

Share-based compensation expense	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Cost of revenues (1)	\$ 98	\$ (76)	\$ 168	\$ 194
Product development expenses	408	1,531	758	2,703
Sales and marketing expenses	201	497	373	1,031
General and administrative expenses	532	1,477	1,026	2,431
	<u>\$ 1,239</u>	<u>\$ 3,429</u>	<u>\$ 2,325</u>	<u>\$ 6,359</u>

Note (1): In the second quarter of 2012, shared-based compensation expense was trued up for forfeited restricted share units which would have become fully vested during the quarter.

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

Share-based compensation expense	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
For Sohu share-based awards	\$ 722	\$ 1,478	\$ 1,583	\$ 3,181
For Changyou share-based awards	363	813	572	2,019
For Sogou share-based awards	154	1,138	170	1,159
	<u>\$ 1,239</u>	<u>\$ 3,429</u>	<u>\$ 2,325</u>	<u>\$ 6,359</u>

For Sohu share options, as of June 30, 2013 there was no unrecognized compensation expense because the requisite service periods for the remaining share options had ended by the end of 2009. For Sohu restricted share units, as of June 30, 2013 there was \$1.7 million of unrecognized compensation expense.

For Changyou share-based awards, as of June 30, 2013, there was \$1.3 million of unrecognized compensation expense.

For Sogou share-based awards, as of June 30, 2013, there was \$2.2 million of unrecognized compensation expense.

There was no share-based compensation expense recognized for the share-based awards of Sohu Video and 7Road for any of the periods presented in the above table.

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Operating Profit

As a result of the foregoing, our operating profit was \$64.4 million and \$135.4 million, respectively, for the three and six months ended June 30, 2013, compared to \$43.1 million and \$95.2 million, respectively, for the corresponding periods in 2012.

Other Income

Other income was \$1.5 million and \$4.1 million, respectively, for the three and six months ended June 30, 2013, compared to other income of \$1.8 million and \$3.4 million, respectively, for the corresponding periods in 2012.

Interest Income

Interest income was \$5.5 million and \$12.2 million, respectively, for the three and six months ended June 30, 2013, compared to \$7.2 million and \$13.7 million, respectively, for the corresponding periods in 2012.

Income Tax Expense

Income tax expense was \$16.3 million and \$36.3 million, respectively, for the three and six months ended June 30, 2013, compared to \$18.5 million and \$37.2 million, respectively, for the corresponding periods in 2012.

The decrease in income tax expense from the three and six months ended June 30, 2012 to the corresponding periods in 2013 was \$2.2 million and \$0.9 million, respectively. The \$2.2 million decrease was mainly due to decreases in withholding tax for Changyou.

Net Income

For the three and six months ended June 30, 2013, we had net income of \$53.2 million and \$111.4 million, respectively, compared to \$33.7 million and \$74.6 million, respectively, for the corresponding periods of 2012.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest was \$24.5 million and \$47.6 million, respectively, for the three and six months ended June 30, 2013, compared to \$19.9 million and \$36.5 million, respectively, for the corresponding periods in 2012.

The increase in net income attributable to noncontrolling interest from the three months ended June 30, 2012 to the three months ended June 30, 2013 was \$4.6 million, of which \$2.5 million and \$2.4 million were contributed by Changyou and Sogou, respectively. The increase from the six months ended June 30, 2012 to the six months ended June 30, 2013 was \$11.1 million, of which \$7.9 million and \$3.6 million were contributed by Changyou and Sogou, respectively.

We expect the noncontrolling interest recognized for Changyou to decrease in the third quarter of 2013, compared to the second quarter of 2013. We expect the noncontrolling interest recognized for Sogou to remain at a low level.

Net Income attributable to Sohu.com Inc.

As a result of the foregoing, we had net income attributable to Sohu of \$21.6 million and \$46.1 million, respectively, for the three and six months ended June 30, 2013, compared to \$12.8 million and \$35.9 million, respectively, for the corresponding periods in 2012.

LIQUIDITY AND CAPITAL RESOURCES

Resources Analysis

Our principal sources of liquidity are cash and cash equivalents, short-term investments, investments in debt securities, as well as the cash flows generated from our operations. Cash equivalents primarily comprise time deposits. As of June 30, 2013, we had cash and cash equivalents, short-term investments and investments in debt securities of approximately \$948.6 million. In addition, as of June 30, 2013, we had \$343 million cash in the form of restricted time deposits, of which \$333 million consisted of RMB deposits in onshore banks related to Changyou bank loans from offshore banks in the principal amount of \$323 million.

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As of June 30, 2013, we had commitments for bandwidth purchases in the amount of \$45 million, commitments for video content purchases in the amount of \$36 million, commitments for operating leases in the amount of \$26 million and commitments for other content and service purchases in the amount of \$20 million. In addition, for Changyou's office building purchased in 2010, \$144 million of the \$163 million purchase price had been paid as of June 30, 2013 and the remaining \$19 million is expected to be settled by the end of 2013.

On July 27, 2013, Changyou's Board of Directors authorized a share repurchase program of up to \$100 million of the outstanding ADSs of Changyou over a two-year period from July 27, 2013 to July 26, 2015.

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

Cash Generating Ability

We believe we will continue to generate strong cash flow from online game business, which, along with our available cash, will provide sufficient liquidity and financial flexibility.

Our cash flows were summarized below (in thousands):

	Six Months Ended June 30,	
	2013	2012
Net cash provided by operating activities	\$ 151,726	\$ 135,807
Net cash used in investing activities	(294,971)	(68,192)
Net cash provided by /(used in) financing activities	68,462	(34,599)
Effect of exchange rate change on cash and cash equivalents	11,790	(1,025)
Net (decrease) /increase in cash and cash equivalents	(62,993)	31,991
Cash and cash equivalents at beginning of period	833,535	732,607
Cash and cash equivalents at end of period	<u>\$ 770,542</u>	<u>\$ 764,598</u>

Net Cash Provided by Operating Activities

For the six months ended June 30, 2013, \$151.7 million net cash provided by operating activities was primarily attributable to our net income of \$111.4 million, adjusted by non-cash items of depreciation and amortization of \$56.1 million, share-based compensation expense of \$2.3 million, and impairment of other intangible assets of \$1.4 million, offset by a decrease in cash from working capital items of \$15.0 million, investment income from investments in debt securities of \$2.7 million, and other miscellaneous expenses of \$1.8 million.

For the six months ended June 30, 2012, \$135.8 million net cash provided by operating activities was primarily attributable to our net income of \$74.6 million, adjusted by non-cash items consisting of depreciation and amortization of \$52.4 million, impairment of purchased video content of \$15.3 million, share-based compensation expense of \$6.4 million, and other miscellaneous non-cash expense of \$6.4 million, offset by a decrease in cash from working capital items of \$14.1 million, investment income from investments in debt securities of \$2.7 million and excess tax benefits of \$2.5 million.

In accordance with U.S. GAAP, the above excess tax benefits were presented as a reduction in cash flows from operating activities and a cash inflow from financing activities. Realizing these benefits reduces the amount of taxes payable and does not otherwise affect cash flows.

Net Cash Used in Investing Activities

For the six months ended June 30, 2013, \$295.0 million net cash used in investing activities was primarily attributable to \$87.6 million used to acquire fixed assets and intangible assets, \$76.0 million used in the purchase of the noncontrolling interest in 7Road, \$82.0 million in restricted time deposits used as collateral for Changyou loans from offshore banks, \$9.0 million in restricted time deposits used as collateral for credit facilities provided by banks to certain Sogou employees, \$40.7 million used for short-term investments, and \$2.4 million used for investment related to other investing activities, offset by investment income from investments in debt securities of \$2.7 million.

For the six months ended June 30, 2012, \$68.2 million net cash used in investing activities was primarily attributable to \$60.1 million used in acquiring fixed assets and intangible assets, \$6.5 million used in business acquisition and investing activities, and \$4.3 million used for short-term investments, offset by investment income from investments in debt securities of \$2.7 million.

Net Cash Provided by/(Used in) Financing Activities

For the six months ended June 30, 2013, \$68.5 million net cash provided by financing activities was primarily attributable to \$81.0 million of Changyou loans from offshore banks, \$5.3 million in proceeds received from early exercise of share-based awards in our majority-owned subsidiary Sogou, \$1.3 million from the exercise of share-based awards in Sogou, and \$0.8 million from the issuance of common stock upon the exercise of share options granted under our stock incentive plan, offset by \$19.7 million used for contingent consideration paid by Changyou to 7Road's noncontrolling shareholders, and \$0.2 million used for other cash payments related to financing activities.

For the six months ended June 30, 2012, \$34.6 million net cash used in financing activities was primarily attributable to \$25.8 million used for the purchase of Sogou Series A Preferred Shares from Alibaba, \$12.6 million used for the repurchase of our common stock and \$0.2 million from other cash payments relating to financing activities, offset by \$2.5 million of excess tax benefits, \$1.4 million from the exercise of share-based awards in Sogou, and \$0.1 million from the issuance of common stock upon the exercise of share options granted under our stock incentive plan.

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

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

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

PRC profit appropriation, withholding tax on dividends and regulation of foreign currency exchange

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

The PRC CIT Law generally imposes a 10% withholding tax on dividends distributed by WFOEs to their immediate holding companies outside mainland China, provided that a lower rate may apply under tax treaties between mainland China and other jurisdictions. For example, withholding tax for dividends to a holding company in Hong Kong may, under certain circumstances, be 5% rather than 10%. As of June 30, 2013, we had accrued deferred tax liabilities in the amount of \$15.4 million for withholding taxes associated with dividends paid by Changyou's mainland China-based WFOEs to Changyou's Hong Kong subsidiary.

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

PRC restrictions related to our VIE structure

While generally our VIEs generate revenues and cash, almost all of our VIEs, with the exception of those related to Changyou's online game business, incur deficits as a result of significant costs involved in their operations, and had negative operating cash flow for the three and six months ended June 30, 2013.

Substantially all of Changyou's operations are conducted through its VIEs, which generate all of Changyou's online game revenues. Although Changyou's subsidiaries received a majority of the VIEs' profits pursuant to contractual agreements between the VIEs and Changyou's PRC subsidiaries providing for payments to the subsidiaries in return for services provided to the VIEs by the PRC subsidiaries, significant cash balances remained in Changyou's VIEs as of June 30, 2013. As Changyou's VIEs are not owned by Changyou's PRC subsidiaries, the VIEs are not able to make dividend payments to the subsidiaries.

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Therefore, in order for Sohu.com Inc. or our subsidiaries outside of mainland China to receive any dividends, loans or advances from Changyou's PRC subsidiaries, we will need to rely on these contractual payments made by Changyou's VIEs to Changyou's PRC subsidiaries. Depending on the nature of services provided by Changyou's PRC subsidiaries to their corresponding VIEs, certain of these payments will subject to PRC taxes, including Business Tax and VAT, which will effectively reduce the amount that the PRC subsidiary receives from its corresponding VIE. In addition, the PRC government could impose restrictions on such payments or change the tax rates applicable to such payments.

U.S. corporate income tax

Sohu.com Inc. is a Delaware corporation and is subject to corporate income tax in the United States. Although in the past Sohu.com Inc. has been able to use NOLs to offset a portion of its U.S. taxable income, at the end of its 2012 taxable year it had no further NOLs available for offsetting any U.S. taxable income. The majority of our subsidiaries and VIEs are based in China and are subject to income taxes in the PRC. These China-based subsidiaries and VIEs conduct substantially all of our operations and, as a result, we generate most of our consolidated income in China. The amount of cash derived from our operations that can be used to buy back our shares of common stock in the market, paid as dividends to Sohu.com Inc.'s shareholders or used for other corporate purposes of Sohu.com Inc. may be limited by the imposition of U.S. corporate income tax on Sohu.com Inc.'s income.

In accordance with U.S. GAAP, we do not provide for U.S. federal income taxes or tax benefits on the undistributed earnings or losses of our non-U.S. subsidiaries or consolidated VIEs because, for the foreseeable future, we do not have the intention to repatriate those undistributed earnings or losses to the U.S. However, certain activities conducted in the PRC may give rise to U.S. corporate income tax, even if there are no distributions to Sohu.com Inc. U.S. corporate income taxes would be imposed on Sohu.com Inc. when its subsidiaries that are controlled foreign corporations ("CFCs") generate income that is subject to Subpart F of the U.S. Internal Revenue Code ("Subpart F"). Passive income, such as rents, royalties, interest and dividends, is among the types of income subject to taxation under Subpart F. Any income taxable under Subpart F is taxable in the U.S. at federal corporate income tax rates of up to 34% or 35%. Subpart F income also includes certain income from intercompany transactions between Sohu.com Inc.'s non-U.S. subsidiaries and VIEs and Changyou's non-U.S. subsidiaries and VIEs, or where Sohu.com Inc.'s non-U.S. subsidiaries or VIEs make an "investment in U.S. property," such as holding the stock in, or making a loan to, a U.S. corporation. Under a temporary provision of the U.S. tax code commonly referred to as the CFC look-through rule, Sohu.com Inc. has not had to treat dividends received by its CFC subsidiaries as Subpart F income includible in Sohu.com Inc.'s taxable income in the U.S. The CFC look-through rule, which is currently scheduled to expire for taxable years beginning after December 31, 2013, has been extended several times by the U.S. Congress. Unless further extended, the CFC look-through rule will be available for Sohu.com Inc.'s CFC subsidiaries and their VIEs only through their taxable years ending November 30, 2014.

Dividend Policy

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

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties, except for a \$9 million restricted time deposit acting as collateral for credit facilities provided by a bank to certain Sogou employees. We are not subject to any additional potential payments other than the restricted time deposit amount, and believe that the fair value of our guarantee liability is immaterial. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or product development services with us.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

None.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**FOREIGN CURRENCY EXCHANGE RATE RISK**

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

The RMB is currently freely convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment. In addition, commencing on July 21, 2005, China reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Under the managed floating exchange rate regime, the RMB is no longer pegged to the U.S. dollar. The exchange rate of the RMB against the U.S. dollar was adjusted to RMB8.11 per U.S. dollar as of July 21, 2005, representing an appreciation of about 2%. The People’s Bank of China will announce the closing prices of foreign currencies such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each business day, and will make such prices the central parity for trading against the RMB on the following business day. On May 19, 2007, the People’s Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.3% to 0.5%. While the international reactions to the RMB revaluation and widening of the RMB’s daily trading band have generally been positive, with the increased floating range of the RMB’s value against foreign currencies, the RMB may appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued.

On June 19, 2010, the People’s Bank of China announced that it has decided to proceed further with the reform of the RMB exchange rate regime to enhance the flexibility of the RMB exchange rate and that emphasis would be placed on reflecting market supply and demand with reference to a basket of currencies. While so indicating its intention to make the RMB’s exchange rate more flexible, the People’s Bank of China ruled out any sharp fluctuations in the currency or a one-off adjustment. As a result of the announcement, the RMB has appreciated significantly. In early August 2013, the center point of the currency’s official trading band hit 6.1778, representing appreciation of more than 10.5%. In the long term, the RMB may appreciate or depreciate more significantly in value against the U.S. dollar or other foreign currencies depending on the market supply and demand with reference to a basket of currencies.

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

The following table sets forth a summary of our foreign currency sensitive financial instruments as of June 30, 2013, which consisted of cash and cash equivalents, restricted time deposits, short-term investments, investments in debt securities, accounts receivable, prepaid and other current assets, current liabilities, long-term accounts payable and long-term bank loans. These financial instruments are recorded at their fair value.

	Denominated in (in thousands)				Total
	US\$	RMB	HK\$	Others	
Cash and cash equivalents	219,619	549,293	696	934	770,542
Restricted time deposits	9,240	333,274	0	0	342,514
Short-term investments	0	97,123	0	0	97,123
Investment in debt securities	0	80,923	0	0	80,923
Accounts receivable	1,439	136,794	64	315	138,612
Prepaid and other current assets	1,351	85,766	0	560	87,677
Current liabilities	181,293	472,984	0	527	654,804
Long-term accounts payable	0	7,423	0	0	7,423
Long-term bank loans	57,000	101,963	0	0	158,963

INTEREST RATE RISK

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

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

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INFLATION RATE RISK

According to the National Bureau of Statistics of China, the consumer price index grew 2.7 % in the first half of 2013. While this rate of inflation represents a decline compared to the rate for the previous quarter, there may be further increased inflation in the future, which could have a material adverse effect on our business.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our “disclosure controls and procedures” (as defined in 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, 2012 filed with the SEC on February 28, 2013.

ITEM 1A. RISK FACTORS

There are no material changes or updates to the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the SEC on February 28, 2013.

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 six months ended June 30, 2013, Sohu did not use any proceeds from the offering. The remaining net proceeds from the offering have been invested in cash and cash equivalents. The use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus contained in the Registration Statement on Form S-1 described above.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Please see the Exhibit Index attached hereto.

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SIGNATURES

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

Dated: August 8, 2013

SOHU.COM INC.

By: /s/ Carol Yu

Carol Yu

Co-President and Chief Financial Officer

Sohu.com Inc.

Quarterly Report on Form 10-Q for Quarter Ended June 30, 2013

EXHIBITS INDEX

- 10.1 Employment Agreement effective as of June 1, 2013, entered into on May 8, 2013, between Sohu.com Inc. and Belinda Wang
- 10.2 Acquisition Framework Agreement, dated as of May 1, 2013, between Changyou.com Webgames (HK) Limited, Burgeon Max Limited, Cadwith Investments Limited, Double Merits Holdings Limited, Euro Logistics Limited, and 7Road.com Limited.
- 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
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012; (ii) Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2013 and 2012; (iii) Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2012; (iv) Condensed Consolidated Statements of Changes in Equity for the Six Months Ended June 30, 2013 and 2012; and (v) Notes to Condensed Consolidated Financial Statements, tagged using four different levels of detail.

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, effective as of June 1, 2013, by and between Sohu.com Inc., a Delaware corporation, and Xin Wang (Belinda), an individual (the "Employee").

1. Definitions. Capitalized terms used herein and not otherwise defined in the text below will have the meanings ascribed thereto on Annex 1.

2. Employment; Duties.

(a) The Company agrees to employ the Employee in the capacity and with such responsibilities as are generally set forth on Annex 2.

(b) The Employee hereby agrees to devote her full time and best efforts in such capacities as are set forth on Annex 2 on the terms and conditions set forth herein. Notwithstanding the foregoing, the Employee may engage in other activities, such as activities involving professional, charitable, educational, religious and similar types of organizations, provided the Employee complies with the Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement effective as of June 1, 2013 and attached hereto as Annex 3 (the "Employee Obligations Agreement") and such other activities do not interfere with or prohibit the performance of the Employee's duties under this Agreement, or conflict in any material way with the business of the Company or of its subsidiaries and affiliates. The provisions of the Employee Obligations Agreement between the Company and the Employee that was in effect prior to June 1, 2013 (the "Prior Employee Obligations Agreement") will continue in full force and effect with respect to all matters arising with respect to periods through May 31, 2013. The Employee Obligations Agreement will be effective as of June 1, 2013 and will be in full force and effect on and after such date. The Company hereby agrees that the continuation of the Employee's status as an independent director of AutoNavi Holdings Limited and SinoMedia Holding Limited, will not be deemed to be a violation of this clause, provided that (i) the businesses of such companies do not subsequently change such that they are in competition with the business of the Company and (ii) the Employee's obligations to such companies do not conflict with her obligations to the Company.

(c) The Employee will use best efforts during the Term to ensure that the Company's business and those of its subsidiaries and affiliates are conducted in accordance with all applicable laws and regulations of all jurisdictions in which such businesses are conducted.

3. Compensation.

(a) Base Annual Income. During the Term, the Company will pay the Employee an annual base salary as set forth on Annex 2, payable monthly pursuant to the Company's normal payroll practices.

(b) Discretionary Bonus. During the Term, the Company, in its sole discretion, may award to the Employee an annual bonus based on the Employee's performance and other factors deemed relevant by the Company's Board of Directors.

(c) Stock Options and Other Equity Incentives. The Employee will be eligible to participate in any stock option, or other equity incentive programs available to officers or employees of the Company.

(d) Reimbursement of Expenses. The Company will reimburse the Employee for reasonable expenses incurred by the Employee in the course of, and necessary in connection with, the performance by the Employee of her duties to the Company, provided that such expenses are substantiated in accordance with the Company's policies.

4. Other Employee Benefits.

(a) Vacation; Sick Leave. The Employee will be entitled to such number of weeks of paid vacation each year as are set forth on Annex 2, the taking of which must be coordinated with the Employee's supervisor in accordance with the Company's standard vacation policy. Unless otherwise approved by the Company's Board of Directors, vacation that is not used in a particular year may only be carried forward to subsequent years in accordance with the Company's policies in effect from time to time. The Employee will be eligible for sick leave in accordance with the Company's policies in effect from time to time.

(b) Healthcare Plan. The Company will arrange for membership in the Company's group healthcare plan for the Employee, the Employee's spouse and the Employee's child under 18 years old, in accordance with the Company's standard policies from time to time with respect to health insurance and in accordance with the rules established for individual participation in such plan and under applicable law.

(c) Life and Disability Insurance. The Company will provide term life and disability insurance payable to the Employee, in each case in an amount up to a maximum of three times the Employee's annual base salary in effect from time to time, provided however, that such amount will be reduced by the amount of any life insurance or death or disability benefit coverage, as applicable, that is provided to the Employee under any other benefit plans or arrangements of the Company. Such policies will be in accordance with the Company's standard policies from time to time with respect to such insurance and the rules established for individual participation in such plans and under applicable law.

(d) Other Benefits. Pursuant to the Company's policies in effect from time to time and the applicable plan rules, the Employee will be eligible to participate in other employee benefit plans of general application, which may include, without limitation, housing allowance or reimbursement, tuition fees for the Employee's children at an international school, and which, in any event, shall include the benefits at the levels set forth on Annex 2.

5. Certain Representations, Warranties and Covenants of the Employee.

(a) Related Company Positions. The Employee agrees that the Employee and members of the Employee's immediate family will not have any financial interest directly or indirectly (including through any entity in which the Employee or any member of the Employee's immediate family has a position or financial interest) in any transactions with the Company or any subsidiaries or affiliates thereof unless all such transactions, prior to being entered into, have been disclosed to the Board of Directors and approved by a majority of the independent members of the Board of Directors and comply with all other Company policies and applicable law as may be in effect from time to time. The Employee also agrees she will inform the Board of Directors of the Company of any transactions involving the Company or any of its subsidiaries or affiliates in which senior officers, including but not limited to the Employee, or their immediate family members have a financial interest.

(b) Discounts, Rebates or Commissions. Unless expressly permitted by written policies and procedures of the Company in effect from time to time that may be applicable to the Employee, neither the Employee nor any immediate family member will be entitled to receive or obtain directly or indirectly any discount, rebate or commission in respect of any sale or purchase of goods or services effected or other business transacted (whether or not by the Employee) by or on behalf of the Company or any of its subsidiaries or affiliates, and if the Employee or any immediate family member (or any firm or company in which the Employee or any immediate family member is interested) obtains any such discount, rebate or commission, the Employee will pay to the Company an amount equal to the amount so received (or the proportionate amount received by any such firm or company to the extent of the Employee's or family member's interest therein).

6. Term; Termination.

(a) Unless sooner terminated pursuant to the provisions of this Section 6, the term of this Agreement (the "Term") will commence on the date hereof and end on May 31, 2016.

(b) Voluntary Termination by the Employee. Notwithstanding anything herein to the contrary, the Employee may voluntarily Terminate this Agreement by providing the Company with ninety (90) days' advance written notice ("Voluntary Termination"), in which case, the Employee will not be entitled to receive payment of any severance benefits or other amounts by reason of the Termination other than accrued salary and vacation through the date of the Termination. The Employee's right to all other benefits will terminate as of the date of Termination, other than any continuation required by applicable law. Without limiting the foregoing, if, in connection with a Change in Control, the surviving entity or successor to Sohu's business offers the Employee employment on substantially equivalent terms to those set forth in this Agreement and such offer is not accepted by the Employee, the refusal by the Employee to accept such offer and the subsequent termination of the Employee's employment by the Company shall be deemed to be a voluntary termination of employment by the Employee and shall not be treated as a termination by the Company without Cause.

(c) Termination by the Company for Cause. Notwithstanding anything herein to the contrary, the Company may Terminate this Agreement for Cause by written notice to the Employee, effective immediately upon the delivery of such notice. In such case, the Employee will not be entitled to receive payment of any severance benefits or other amounts by reason of the Termination other than accrued salary and vacation through the date of the Termination. The Employee's right to all other benefits will terminate, other than any continuation required by applicable law.

(d) Termination by the Employee with Good Reason or Termination by the Company without Cause. Notwithstanding anything herein to the contrary, the Employee may Terminate this Agreement for Good Reason, and the Company may Terminate this Agreement without Cause, in either case upon thirty (30) days' advance written notice by the party Terminating this Agreement to the other party and the Termination shall be effective as of the expiration of such thirty (30) day period. If the Employee Terminates with Good Reason or the Company Terminates without Cause, the Employee will be entitled to continue to receive payment of severance benefits equal to the Employee's monthly base salary in effect on the date of Termination for the shorter of (i) six (6) months and (ii) the remainder of the Term of this Agreement (the "Severance Period"), provided that the Employee complies with the Employee Obligations Agreement during the Severance Period and executes a release agreement in the form requested by the Company at the time of such Termination that releases the Company from any and all claims arising from or related to the employment relationship and/or such Termination. Such payments will be made ratably over the Severance Period according to the Company's standard payroll schedule. The Employee will also receive payment of the bonus for the remainder of the year of the Termination, but only to the extent that the bonus would have been earned had the Employee continued in employment through the end of such year, as determined in good faith by the Company's CEO, Board of Directors or its Compensation Committee based on the specific corporate and individual performance targets established for such fiscal year, and only to the extent that bonuses are paid for such fiscal year to other similarly situated employees. Health insurance benefits with the same coverage (i.e., medical, dental, optical and/or mental health coverage) provided to the Employee prior to the Termination and in all other material respects comparable to those in place immediately prior to the Termination will be provided at the Company's expense during the Severance Period. The Company will also continue to carry the Employee on its Directors and Officers insurance policy for six (6) years following the Date of Termination at the Company's expense with respect to insurable events which occurred during the Employee's term as a director or officer of the Company, with such coverage being at least comparable to that in effect immediately prior to the Termination Date; provided, however, that (i) such terms, conditions and exceptions will not be, in the aggregate, materially less favorable to the Employee than those in effect on the Termination Date and (ii) if the aggregate annual premiums for such insurance at any time during such period exceed two hundred percent (200%) of the per annum rate of premium currently paid by the Company for such insurance, then the Company will provide the maximum coverage that is then available at an annual premium equal to two hundred percent (200%) of such rate.

(e) Termination by Reason of Death or Disability. A Termination of the Employee's employment by reason of death or Disability shall not be deemed to be a Termination by the Company (for or without Cause) or by the Employee (for or without Good Reason). In the event that the Employee's employment with the Company Terminates as a result of the Employee's death or Disability, the Employee or the Employee's estate or representative, as applicable, will receive all accrued salary and accrued vacation as of the date of the Employee's death or Disability and any other benefits payable under the Company's then existing benefit plans and policies in accordance with such plans and policies in effect on the date of death or Disability and in accordance with applicable law. In addition, the Employee or the Employee's estate or representative, as applicable, will receive the bonus for the year in which the death or Disability occurs to the extent that a bonus would have been earned had the Employee continued in employment through the end of such year, as determined in good faith by the Company's CEO, Board of Directors or Compensation Committee of the Board of Directors based on the specific corporate and individual performance targets established for such fiscal year, and only to the extent that bonuses are paid for such fiscal year to other similarly situated employees.

(f) Misconduct After Termination of Employment. Notwithstanding the foregoing, if the Employee after the termination of her employment violates or fails to fully comply with the Employee Obligations Agreement, thereafter (i) the Employee shall not be entitled to any payments from the Company, (ii) any insurance or other benefits that have continued shall terminate immediately, (iii) the Employee shall promptly reimburse to the Company all amounts that have been paid to the Employee pursuant to this Section 6; and (iv) if the Employee would not, in the absence of such violation or failure to comply, have been entitled to severance payments from the Company equal to at least six (6) months' base salary, the Employee shall pay an amount equal to the difference between six (6) months' base salary and the amount of severance pay measured by base salary reimbursed to the Company pursuant to clause (iii) of this sentence.

7. Equity-Based Compensation-Related Provisions.

(a) Termination by the Company Without Cause after a Change in Control. If Company Terminates this Agreement without Cause within twelve (12) months following a Change in Control, the vesting and exercisability of each of the Employee's outstanding stock options or other equity-based incentive awards ("Awards") will accelerate such that the Award will become fully vested and exercisable upon the effectiveness of the Termination, and any repurchase right of the Company with respect to shares of stock issued upon exercise of the Award will completely lapse, in each case subject to paragraph (c) below ("Forfeiture of Options for Misconduct").

(b) Termination other than by the Company Without Cause after a Change in Control. If the Employee's employment with the Company Terminates for any reason, unless the Company Terminates this Agreement without Cause within twelve (12) months following a Change in Control, the vesting and exercisability of each of the Employee's outstanding Awards shall cease upon the effectiveness of the Termination, such that any unvested Award shall be cancelled.

(c) Forfeiture of Options for Misconduct. If the Employee fails to comply with the terms of this Agreement, the Employee Obligations Agreement, or the written policies and procedures of the Company, as the same may be amended from time to time, or acts against the specific instructions of the Board of Directors of the Company or if this Agreement is terminated by the Company for Cause (each a "Penalty Breach"), the Employee will forfeit any Awards that have been granted to her or to which the Employee may be entitled, whether the same are then vested or not, and the same shall thereafter not be exercisable at all, and all shares of common stock of the Company, if any, purchased by the Employee pursuant to the exercise of Awards and still then owned by the Employee may be repurchased by the Company, at its sole discretion, at the price paid by the Employee for such shares of common stock. The terms of all outstanding option grants are hereby amended to conform with this provision.

8. Employee Obligations Agreement. By signing this Agreement, the Employee hereby agrees to execute and deliver to the Company the Employee Obligations Agreement, and such execution and delivery shall be a condition to the Employee's entitlement to her rights under this Agreement.

9. Governing Law; Resolution of Disputes. This Agreement will be governed by and construed and enforced in accordance with the laws of the State of New York if the Employee is not a citizen of the People's Republic of China (the "PRC"), and in accordance with the laws of the PRC if the Employee is a citizen of the PRC, in each case exclusive of such jurisdiction's principles of conflicts of law. If, under the applicable law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion will be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement; the invalidity of any such portion will not affect the force, effect and validity of the remaining portion hereof. Each of the parties hereto irrevocably agrees that any dispute or controversy arising out of, relating to, or concerning any interpretation, construction, performance or breach of this Agreement, shall be settled by arbitration to be held in Hong Kong under the Hong Kong International Arbitration Centre Administered Arbitration Rules (the "Arbitration Rules") in force when a Notice of Arbitration with respect thereto is submitted in accordance with the Arbitration Rules. There shall be one arbitrator, selected in accordance with the Arbitration Rules. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction. The parties to the arbitration shall each pay an equal share of the costs and expenses of such arbitration, and each party shall separately pay for its respective counsel fees and expenses; provided, however, that the prevailing party in any such arbitration shall be entitled to recover from the non-prevailing party its reasonable costs and attorney fees.

10. Notices. All notices, requests and other communications under this Agreement will be in writing (including email, facsimile or similar writing and express mail or courier delivery or in person delivery, but excluding ordinary mail delivery) and will be given to the address stated below:

- (a) if to the Employee, by email or to the address or facsimile number that is on file with the Company from time to time, as may be updated by the Employee;

(b) if to the Company:

Sohu.com Inc.
Level 15, Sohu.com Internet Plaza
No. 1 Unit Zhongguancun East Road, Haidian District
Beijing 100084
People's Republic of China
Attention: Charles Zhang
Chairman and Chief Executive Officer
fax: (86-10) 6270-2155

with a copy to:
Goulston & Storrs
400 Atlantic Avenue
Boston, MA 02110
Attention: Timothy B. Bancroft
fax: (617) 574-4112

or to such other address or facsimile number as either party may hereafter specify for the purpose by written notice to the other party in the manner provided in this Section 10. All such notices, requests and other communications will be deemed received: (i) if given by facsimile transmission, when transmitted to the facsimile number specified in this Section 10 if confirmation of receipt is received; (ii) if given by express mail or courier delivery, when delivered; and (iii) if given in person, when delivered.

11. Miscellaneous.

(a) Entire Agreement. This Agreement, together with the Employee Obligations Agreement, constitutes the entire understanding between the Company and the Employee relating to the subject matter hereof on and after June 1, 2013 and supersedes and cancels all prior and contemporaneous written and oral agreements and understandings with respect to the subject matter of this Agreement. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement.

(b) Modification; Waiver. No provision of this Agreement may be modified, waived or discharged unless modification, waiver or discharge is agreed to in writing signed by the Employee and such officer of the Company as may be specifically designated by its Board of Directors. No waiver by either party at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(c) Successors; Binding Agreement. This Agreement will be binding upon and will inure to the benefit of the Employee, the Employee's heirs, executors, administrators and beneficiaries, and the Company and its successors (whether direct or indirect, by purchase, merger, consolidation or otherwise), subject to the terms and conditions set forth herein.

(d) Withholding Taxes. All amounts payable to the Employee under this Agreement will be subject to applicable withholding of income, wage and other taxes to the extent required by applicable law.

(e) Validity. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision of this Agreement, which will remain in full force and effect.

(f) Language. This Agreement is written in the English language only. The English language also will be the controlling language for all future communications between the parties hereto concerning this Agreement.

(g) Counterparts. This Agreement may be signed in any number of counterparts, each of which will be deemed an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement as of the year and day first above written.

Signature of Employee:

Sohu.com Inc.

Printed name of employee:

Xin Wang (Belinda)

By:

Name: Charles Zhang

Title: Chief Executive Officer

Certain Definitions

“Cause” means:

- (i) willful misconduct or gross negligence by the Employee, or any willful or grossly negligent omission to perform any act, resulting in injury to the Company or any subsidiaries or affiliates thereof;
- (ii) misconduct or negligence of the Employee that results in gain or personal enrichment of the Employee to the detriment of the Company or any subsidiaries or affiliates thereof;
- (iii) breach of any of the Employee’s agreements with the Company, including those set forth herein and in the Employee Obligations Agreement, and including, but not limited to, the repeated failure to perform substantially the Employee’s duties to the Company or any subsidiaries or affiliates thereof, excessive absenteeism or dishonesty;
- (iv) any attempt by the Employee to assign or delegate this Agreement or any of the rights, duties, responsibilities, privileges or obligations hereunder without the prior consent of the Company (except in respect of any delegation by the Employee of her employment duties hereunder to other employees of the Company in accordance with its usual business practice);
- (v) the Employee’s indictment or conviction for, or confession of, a felony or any crime involving moral turpitude under the laws of the United States or any State thereof, or under the laws of China, or Hong Kong;
- (vi) declaration by a court that the Employee is insane or incompetent to manage her business affairs;
- (vii) habitual drug or alcohol abuse which materially impairs the Employee’s ability to perform her duties; or
- (viii) filing of any petition or other proceeding seeking to find the Employee bankrupt or insolvent.

“Change in Control” means the occurrence of any of the following events:

- (i) any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Securities Exchange Act of 1934) other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company, becomes the direct or beneficial owner of securities representing fifty percent (50%) or more of the combined voting power of the Company’s then-outstanding securities;

- (ii) during any period of two (2) consecutive years after the date of this Agreement, individuals who at the beginning of such period constitute the Board of Directors of the Company, and all new directors (other than directors designated by a person who has entered into an agreement with the Company to effect a transaction described in (i), (iii), or (iv) of this definition) whose election or nomination to the Board was approved by a vote of at least two-thirds of the directors then in office, cease for any reason to constitute at least a majority of the members of the Board;
- (iii) the effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the surviving entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving entity;
- (iv) the complete liquidation of the Company or the sale or disposition by the Company of all or substantially all of the Company's assets; or
- (v) there occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Exchange Act (as defined below), whether or not the Company is then subject to such reporting requirement.

"Company" means Sohu.com Inc and, unless the context suggests to the contrary, all of its subsidiaries and related companies.

"Disability" means the Employee becomes physically or mentally impaired to an extent which renders her unable to perform the essential functions of her job, with or without reasonable accommodation, for a period of six consecutive months, or an aggregate of nine months in any two year period.

"Good Reason" means the occurrence of any of the following events without the Employee's express written consent, provided that the Employee has given notice to the Company of such event and the Company has not remedied the problem within fifteen (15) days:

- (i) any significant change in the duties and responsibilities of the Employee inconsistent in any material and adverse respect with the Employee's title and position (including status, officer positions and reporting requirements), authority, duties or responsibilities as contemplated by Annex 2 to this Agreement. For the purposes of this Agreement, because of the evolving nature of the Employer's business, the Company's changing of Employee's reporting relationships and department(s) will not be considered a significant change in duties and responsibilities;

- (ii) any material breach by the Company of this Agreement, including without limitation any reduction of the Employee's base salary or the Company's failure to pay to the Employee any portion of the Employee's compensation; or
- (iii) the failure, in the event of a Change in Control in which the Company is not the surviving entity, of the surviving entity or the successor to the Company's business to assume this Agreement pursuant to its terms or to offer the Employee employment on substantially equivalent terms to those set forth in this Agreement.

"Termination" (and any similar, capitalized use of the term, such as "Terminate") means, according to the context, the termination of this Agreement or the Employee's ceasing to render employment services.

Annex 2

Particular Terms of Employee's Employment

Title(s): Co-President and Chief Operating Officer of the Company

Reporting Requirement: The Employee will report to the Company's Chief Executive Officer.

Responsibilities: Such duties and responsibilities as are ordinarily associated with the Employee's title in a United States publicly-traded corporation and such other duties as may be specified by the Board of Directors from time to time.

Base Salary: \$437,000 per year as may be adjusted by the Board of Directors from time to time.

Weeks of Paid Vacation per Year: Three (3)

Other Benefits:

Annual allowance or reimbursement after tax of U.S. \$80,000 per year.

Health, life and disability insurance as per company policy.

Bonus (80% of annual base pay will be the Employee's target bonus, based on the senior management bonus plan in effect from time to time) as specifically approved each year.

FORM OF EMPLOYEE NON-COMPETITION, NON-SOLICITATION, CONFIDENTIAL INFORMATION AND WORK PRODUCT AGREEMENT

In consideration of my employment and the compensation paid to me by Sohu.com Inc., a Delaware corporation, or a subsidiary or other affiliate or related company thereof (Sohu.com Inc. or any such subsidiary or related company or other affiliate referred to herein individually and collectively as "SOHU"), and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, I agree as follows:

1. **Non-Competition.** During my employment with SOHU and continuing after the termination of my employment for the longer of (i) one year after the termination of my employment with SOHU for any reason and (ii) such period of time as SOHU is paying to me any severance benefits, (the "Noncompete Period"), I will not, on my own behalf, or as owner, manager, stockholder (other than as stockholder of less than 2% of the outstanding stock of a company that is publicly traded or listed on a stock exchange), consultant, director, officer or employee of or in any other manner connected with any business entity, participate or be involved in any Competitor without the prior written authorization of SOHU. "Competitor" means any business of the type and character of business in which SOHU engages or proposes to engage and may include, without limitation, an individual, company, enterprise, partnership enterprise, government office, committee, social organization or other organization that, in any event, produces, distributes or provides the same or substantially similar kind of product or service as SOHU. On the date of this Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement (this "Agreement"), "Competitors" include without limitation: Sina.com, Tencent, Netease.com, iFeng, Renren, Youku Tudou, iQiyi, PC Online, SouFun, CRIC, BitAuto, Yahoo, Microsoft, Baidu, Google, Qihoo, Alibaba, Shanda, Perfect World, Giant, NetDragon, Kingsoft, The 9, Ctrip, Elong, Ebay, Dang Dang and Kong Zhong. Such list may be updated by the Company from time to time so that it is consistent with the list of competitors disclosed in the Company's quarterly reports on Form 10-Q or annual reports on Form 10-K filed with the U.S. Securities and Exchange Commission.

2. **Nonsolicitation.** During the Noncompete Period, I will not, either for my own account or for the account of any other person: (i) solicit, induce, attempt to hire, or hire any employee or contractor of SOHU or any other person who may have been employed or engaged by SOHU during the term of my employment with SOHU unless that person has not worked with SOHU within the six months following my last day of employment with SOHU; (ii) solicit business or relationship in competition with SOHU from any of SOHU's customers, suppliers or partners or any other entity with which SOHU does business; (iii) assist in such hiring or solicitation by any other person or business entity or encourage any such employee to terminate her employment with SOHU; or (iv) encourage any such customer, supplier or partner or any other entity to terminate its relationship with SOHU.

3. Confidential Information.

(a) While employed by SOHU and indefinitely thereafter, I will not, directly or indirectly, use any Confidential Information (as hereinafter defined) other than pursuant to my employment by and for the benefit of SOHU, or disclose any such Confidential Information to anyone outside of SOHU or to anyone within SOHU who has not been authorized to receive such information, except as directed in writing by an authorized representative of SOHU.

(b) "Confidential Information" means all trade secrets, proprietary information, and other data and information, in any form, belonging to SOHU or any of their respective clients, customers, consultants, licensees or affiliates that is held in confidence by SOHU. Confidential Information includes, but is not limited to computer software, the structure of SOHU's online directories and search engines, business plans and arrangements, customer lists, marketing materials, financial information, research, and any other information identified or treated as confidential by SOHU or any of their respective clients, customer, consultants, licensees or affiliates. Notwithstanding the foregoing, Confidential Information does not include information which SOHU has voluntarily disclosed to the public without restriction, or which is otherwise known to the public at large.

4. Rights in Work Product.

(a) I agree that all Work Product (as hereinafter defined) will be the sole property of SOHU. I agree that all Work Product that constitutes original works of authorship protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act and, therefore, the property of SOHU. I agree to waive, and hereby waive and irrevocably and exclusively assign to SOHU, all right, title and interest I may have in or to any other Work Product and, to the extent that such rights may not be waived or assigned, I agree not to assert such rights against SOHU or its licensees (and sublicensees), successors or assigns.

(b) I agree to promptly disclose all Work Product to the appropriate individuals in SOHU as such Work Product is created in accordance with the requirements of my job and as directed by SOHU.

(c) "Work Product" means any and all inventions, improvements, developments, concepts, ideas, expressions, processes, prototypes, plans, drawings, designs, models, formulations, specifications, methods, techniques, shop-practices, discoveries, innovations, creations, technologies, formulas, algorithms, data, computer databases, reports, laboratory notebooks, papers, writings, photographs, source and object codes, software programs, other works of authorship, and know-how and show-how, or parts thereof conceived, developed, or otherwise made by me alone or jointly with others (i) during the period of my employment with SOHU or (ii) during the six month period next succeeding the termination of my employment with SOHU if the same in any way relates to the present or proposed products, programs or services of SOHU or to tasks assigned to me during the course of my employment, whether or not patentable or subject to copyright or trademark protection, whether or not reduced to tangible form or reduced to practice, whether or not made during my regular working hours, and whether or not made on SOHU premises.

5. Employee's Prior Obligations. I hereby certify I have no continuing obligation to any previous employer or other person or entity which requires me not to disclose any information to SOHU.

6. Employee's Obligation to Cooperate. At any time during my employment with SOHU and thereafter upon the request of SOHU, I will execute all documents and perform all lawful acts that SOHU considers necessary or advisable to secure its rights hereunder and to carry out the intent of this Agreement. Without limiting the generality of the foregoing, I agree to render to SOHU or its nominee all reasonable assistance as may be required:

- (a) In the prosecution or applications for letters patent, foreign and domestic, or re-issues, extensions and continuations thereof;
- (b) In the prosecution or defense of interferences which may be declared involving any of said applications or patents;
- (c) In any administrative proceeding or litigation in which SOHU may be involved relating to any Work Product; and
- (d) In the execution of documents and the taking of all other lawful acts which SOHU considers necessary or advisable in creating and protecting its copyright, patent, trademark, trade secret and other proprietary rights in any Work Product.

The reasonable out-of-pocket expenses incurred by me in rendering such assistance at the request of SOHU will be reimbursed by SOHU. If I am no longer an employee of SOHU at the time I render such assistance, SOHU will pay me a reasonable fee for my time.

7. Termination; Return of SOHU Property. Upon the termination of my employment with SOHU for any reason, or at any time upon SOHU's request, I will return to SOHU all Work Product and Confidential Information and notes, memoranda, records, customer lists, proposals, business plans and other documents, computer software, materials, tools, equipment and other property in my possession or under my control, relating to any work done for SOHU, or otherwise belonging to SOHU, it being acknowledged that all such items are the sole property of SOHU. Further, before obtaining my final paycheck, I agree to sign a certificate stating the following:

“Termination Certificate

This is to certify that I do not have in my possession or custody, nor have I failed to return, any Work Product (as defined in the Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement between me and Sohu.com Inc. (“SOHU”)) or any notes, memoranda, records, customer lists, proposals, business plans or other documents or any computer software, materials, tools, equipment or other property (or copies of any of the foregoing) belonging to SOHU.”

8. General Provisions.

(a) This Agreement contains the entire agreement between me and SOHU with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings related to the subject matter hereof, whether written or oral; provided however, that, with respect to periods through the date hereof, this Agreement will not supersede the Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement between SOHU that was in effect prior to the date hereof (the "Prior Employee Obligations Agreement"), which will continue in full force and effect with respect to such periods. This Agreement may not be modified except by written agreement signed by SOHU and me.

(b) This Agreement will be governed by and construed and enforced in accordance with the laws of the State of New York if the Employee is not a citizen of the People's Republic of China (the "PRC"), and in accordance with the laws of the PRC if the Employee is a citizen of the PRC, in each case exclusive of such jurisdiction's principles of conflicts of law. If, under the applicable law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion will be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement; the invalidity of any such portion will not affect the force, effect and validity of the remaining portion hereof. Each of the parties hereto irrevocably (i) agrees that any dispute or controversy arising out of, relating to, or concerning any interpretation, construction, performance or breach of this Agreement, shall be settled to be held in the Hong Kong S.A.R. under the Hong Kong International Arbitration Centre Administered Arbitration Rules (the "Arbitration Rules") in force when a Notice of Arbitration with respect thereto is submitted in accordance with the Arbitration Rules. There shall be one arbitrator, selected in accordance with the Arbitration Rules. The decision of the arbitrator shall be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction. The parties to the arbitration shall each pay an equal share of the costs and expenses of such arbitration, and each party shall separately pay for its respective counsel fees and expenses; provided, however, that the prevailing party in any such arbitration shall be entitled to recover from the non-prevailing party its reasonable costs and attorney fees.

(c) In the event that any provision of this Agreement is determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time, over too large a geographic area, over too great a range of activities, it will be interpreted to extend only over the maximum period of time, geographic area or range of activities as to which it may be enforceable.

(d) If, after application of paragraph (c) above, any provision of this Agreement will be determined to be invalid, illegal or otherwise unenforceable by any court of competent jurisdiction, the validity, legality and enforceability of the other provisions of this Agreement will not be affected thereby. Any invalid, illegal or unenforceable provision of this Agreement will be severed, and after any such severance, all other provisions hereof will remain in full force and effect.

(e) SOHU and I agree that either of us may waive or fail to enforce violations of any part of this Agreement without waiving the right in the future to insist on strict compliance with all or parts of this Agreement.

(f) My obligations under this Agreement will survive the termination of my employment with SOHU regardless of the manner of or reasons for such termination, and regardless of whether such termination constitutes a breach of any other agreement I may have with SOHU. My obligations under this Agreement will be binding upon my heirs, executors and administrators, and the provisions of this Agreement will inure to the benefit of the successors and assigns of SOHU.

(g) I agree and acknowledge that the rights and obligations set forth in this Agreement are of a unique and special nature and necessary to ensure the preservation, protection and continuity of SOHU's business, employees, Confidential Information, and intellectual property rights. Accordingly, SOHU is without an adequate legal remedy in the event of my violation of any of the covenants set forth in this Agreement. I agree, therefore, that, in addition to all other rights and remedies, at law or in equity or otherwise, that may be available to SOHU, each of the covenants made by me under this Agreement shall be enforceable by injunction, specific performance or other equitable relief, without any requirement that SOHU have to post a bond or that SOHU have to prove any damages.

IN WITNESS WHEREOF, the undersigned employee and SOHU have executed this Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement.

Effective as of June 1, 2013.

Signature of Employee:

Sohu.com Inc.

Printed name of employee:
Xin Wang (Belinda)

By:

Name: Charles Zhang
Title: Chief Executive Officer

Confidential Treatment Requested. Confidential portions of this document have been redacted and have been separately filed with the SEC.

Acquisition Framework Agreement

by and among

Beijing Gamease Age Digital Technology Co., Ltd.
CHANGYOU.COM WEBGAMES (HK) LIMITED

Johnny, Cao Kai

Kent, Yang Zhiyi

Justin, Long Chunyan

Ben, Meng Shuqi

BURGEON MAX LIMITED

CADGWITH INVESTMENTS LIMITED

DOUBLE MERITS HOLDINGS LIMITED

EURO LOGISTICS LIMITED

7ROAD.COM LIMITED

Shenzhen 7Road Network Technology Co., Ltd

and

Shenzhen 7Road Technology Co., Ltd.

Relating to the equity interests in

7ROAD.COM LIMITED and Shenzhen 7Road Technology Co., Ltd.

Dated as of May 1, 2013

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Acquisition Framework Agreement

This Acquisition Framework Agreement (“**Agreement**”) is entered into in Shenzhen City, the People’s Republic of China on May 1, 2013 by and among:

- (1) BURGEON MAX LIMITED (“**BVI-I**”), a limited liability company duly incorporated and validly existing under the laws of the British Virgin Islands, with its registered address at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands;
- (2) CADGWITH INVESTMENTS LIMITED (“**BVI-II**”), a limited liability company duly incorporated and validly existing under the laws of the British Virgin Islands, with its registered address at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands;
- (3) DOUBLE MERITS HOLDINGS LIMITED (“**BVI-III**”), a limited liability company duly incorporated and validly existing under the laws of the British Virgin Islands, with its registered address at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands;
- (4) EURO LOGISTICS LIMITED (“**BVI-IV**”), a limited liability company duly incorporated and validly existing under the laws of the British Virgin Islands, with its registered address at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Island (together with BVI-I, BVI-II and BVI-III, the “**Existing Shareholders of the Cayman Company**”);
- (5) Johnny, Cao Kai (曹凯), the sole shareholder of BVI-I, a Chinese citizen(ID card number: *), with his address at *;
- (6) Kent, Yang Zhiyi (杨志毅), the sole shareholder of BVI-II, a Chinese citizen (ID card number: *), with his address at *;
- (7) Justin, Long Chunyan (龙春彦), the sole shareholder of BVI-III, a Chinese citizen (ID card number: *), with his address at *;
- (8) Ben, Meng Shuqi (孟舒琪), the sole shareholder of BVI-IV, a Chinese citizen (ID card number: *), with his address at * (Johnny, Cao Kai, Kent,

The symbol ‘ * ’ in this exhibit indicates places where information has been omitted pursuant to a request for confidential treatment and filed separately with the SEC.

Yang Zhiyi, Justin, Long Chunyan, Ben, Meng Shuqi shall hereinafter be collectively referred to as “**Existing Shareholders of the VIE Company**”; the Existing Shareholders of the VIE Company and the Existing Shareholders of the Cayman Company shall hereinafter be collectively referred to as the “**Sellers**”);

- (9) Beijing Gamease Age Digital Technology Co., Ltd., a limited liability company duly incorporated and validly existing under the laws of the People’s Republic of China, with its registered address at 2F, East Wing, Jingyan Hotel, No.29 Shi Jing Shan Road, Shi Jing Shan District, Beijing (“**Gamease Age**”);
- (10) Changyou.com Webgames (HK) Limited, a limited liability company duly incorporated and validly existing under the laws of Hong Kong, with its registered address at 304 Dominion Centre, 43 Queen’s Road East, Hong Kong (“**Gamease Hong Kong**”, and together with Gamease Age, the “**Purchasers**”);
- (11) 7Road.com Limited, a limited liability company duly incorporated and validly existing under the laws of Cayman, with its registered address at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands (the “**Cayman Company**”);
- (12) Shenzhen 7Road Network Technology Co., Ltd, a limited liability company duly incorporated and validly existing under the laws of the People’s Republic of China (the “**WFOE**”), with its registered address at 7F, Main Building, Matsunichi Peak Tower, No. 9996, Shennan Road, Nan Shan District, Shenzhen City; and
- (13) Shenzhen 7Road Technology Co., Ltd, a limited liability company duly incorporated and validly existing under the laws of the People’s Republic of China (the “**VIE Company**”), with its registered address at 8-9F, Main Building, Matsunichi Peak Tower, No. 9996, Shennan Road, Nan Shan District, Shenzhen City.

The foregoing are referred to as **Parties** collectively or a **Party** individually.

WHEREAS:

(1) Certain Parties hereto and Liqing Zeng, Yuan Wang, Tao Liu, Jie Zhang, Suzhou Green Pine Growth Partnership, Shenzhen Capital Group Co., Ltd entered into the Share Transfer Framework Agreement relating to the transfer of 68.258% equity interests in each of Shenzhen 7Road Technology Co., Ltd and its overseas Affiliate (“**Share Transfer Framework Agreement**”) on April 22, 2011, regarding the acquisition of 68.258% equity interests in the VIE Company by Gamease Age, the implement of the overseas reorganization plan of 7Road Group (defined as below) and the acquisition of 68.258% equity interests in the Cayman Company by Gamease Hong Kong (the “**Domestic and Overseas Share Transfer and Reorganization**”).

(2) The Domestic and Overseas Share Transfer and Reorganization has been completed before the date hereof. As of its establishment, the Cayman Company had issued 100,000 ordinary shares in total, which were, upon the completion of the overseas share transfer, held by the Existing Shareholders of the Cayman Company and Gamease Hong Kong respectively in accordance with the respective shareholding ratio of the Existing Shareholders of the VIE Company and Gamease Age in the VIE Company. Thereafter, Johnny, Cao Kai transferred 5,100 shares (5.1% of then all issued shares of the Cayman Company) through BVI-I back to the Cayman Company free of charge to be used for offering options and/or incentive shares under the employee share incentive plan of 7Road Group. After a share split, all the issued shares of the Cayman Company were changed to 100,000,000 ordinary shares and reclassified into 2 classes: (i) 94,900,000 Class B Ordinary Shares, held by the Existing Shareholders of the Cayman Company and Gamease Hong Kong respectively; and (ii) the 5.1% previously issued shares transferred by Johnny, Cao Kai to the Cayman Company free of charge were changed to 5,100,000 Class A Ordinary Shares after the shares split, which were reserved by the Cayman Company and of which restricted share units (“**RSUs**”) settleable upon vesting by the issuance of an aggregate of 2,546,250 shares have been granted to certain employees under the 2012 Share Incentive Plan of the Cayman Company. As of the date hereof, the shareholding structure of the Cayman Company is as follows:

<u>Name</u>	Amount of shares (Class B Ordinary Shares)	<u>Shareholding</u>
Gamease Hong Kong	68,258,000	71.926%
BVI-I	20,490,000	21.591%
BVI-II	2,090,000	2.202%
BVI-III	2,090,000	2.202%
BVI-IV	1,972,000	2.078%
Total	94,900,000	100.00%

(3) As of the date hereof, the shareholding structure of the VIE Company is as follows:

Name	Amount of capital contribution (RMB)	Shareholding
Gamease Age	6,825,800	68.258%
Johnny, Cao Kai	2,559,000	25.59%
Kent, Yang Zhiyi	209,000	2.09%
Justin, Long Chunyan	209,000	2.09%
Ben, Meng Shuqi	197,200	1.972%
Total	10,000,000	100.00%

The VIE Company, its shareholders and the WFOE have entered into a series of VIE Agreements (defined below), and the shares held by each shareholder of the VIE Company have been pledged to the WFOE based on the VIE Agreements.

(4) The Sellers intend to transfer all of their equity interests in the VIE Company and the Cayman Company (collectively referred to as the **“Target Shares”**) to the Purchasers in accordance with the terms and conditions hereof and to cease holding equity interests in 7Road Group entirely; the Purchasers agree to purchase the Target Shares.

To achieve the transaction goal in the foregoing and upon the consultation on the basis of equality, the Parties agree:

I. Definitions and Interpretations

1.1 Definitions

In addition to the capitalized terms defined in the foregoing, unless otherwise provided in this Agreement, the following terms shall have the respective meanings set forth below:

“Encumbrance” shall mean the mortgage, pledge, lien, right of first refusal, or any other third party rights and interests of any nature.

“7Road Group” shall mean, collectively, the Cayman Company, 7Road.com HK Limited as the wholly-owned subsidiary of the Cayman Company, the WFOE and the VIE Company. Any provisions applicable to the 7Road Group shall be deemed to be applied to all members of the 7Road Group in the foregoing as a whole and individually.

“Shareholders Agreement of the VIE Company”

shall mean the Shenzhen 7Road Technology Co., Ltd Shareholders Agreement signed by and among the Existing Shareholders of the VIE Company and Gamease Age on April 22, 2011.

“VIE Agreements”

shall mean a series of agreements and documents dated as of May 31, 2012 relating to the controlling power over the VIE Company, signed by and among the Existing Shareholders of the VIE Company, Gamease Age, the WFOE and the VIE Company (if applicable) pursuant to the Share Transfer Framework Agreement, including the Equity Interest Purchase Right Agreements, the Equity Interest Pledge Agreements, the Technology Development and Technology Utilization Service Agreement, the Spousal Consent Letters, the Business Operation Agreement, the Services and Maintenance Agreement, and the Intellectual Property Rights Transfer Agreement.

“Shareholders Agreement of the Cayman Company”

shall mean the Shareholders Agreement of 7Road.com Limited signed by and among the Existing Shareholders of the Cayman Company and Gamease Hong Kong on June 15, 2012.

“Industrial and Commercial Administration”

shall mean relevant industrial and commercial administrations in charge of the registration of companies and trademark registration.

“Governmental Department”

shall mean any government, quasi-government, any judicial, public, regulatory, legislative or statutory institution, any authority, entity, agency, ministry, bureau or unit or any arbitrator of the PRC or other jurisdictions, which has an authority on any Party in accordance with the law.

“Affiliates”	shall mean, with respect to any Person, any other Person that controls, is controlled by or is under common control with such Person, directly or indirectly through one or more intermediaries. “Control” means the possession, direct or indirect, of the power to direct the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise. If any Person, directly or indirectly, holds 50% or more of the equity interest of another Person, it shall be deemed as controlling such Person.
“Business Day”	shall mean a calendar day other than Saturday, Sunday or other legal holidays in the PRC.
“Yuan”	shall mean Renminbi Yuan, the lawful currency of the PRC.
“China” or “PRC”	shall mean the People’s Republic of China, solely for purposes of this Agreement, excluding Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.
“Material Adverse Change”	shall mean any event, matter, situation, change, or development leading to or reasonably likely to cause Material Adverse Effects to the business, financial condition, operation and operational results of the 7Road Group, but changes of common economic or political factors are excluded.
“Material Adverse Effect”	shall mean any effect materially adverse to the business, assets, prospects, operation (including finance and other aspects), operational results or registered capital of an entity.
“Person”	shall mean natural person, partnership, corporation, limited liability company, joint stock company, trust, unincorporated enterprise, joint venture, governmental agency, or other institutions or organizations.

1.2 Interpretations

- (a) Unless otherwise provided, all references herein to Articles and Sections, shall be deemed to refer to Articles and Sections of or to this Agreement, as applicable.
- (b) The words “include,” “includes,” and “including” shall be deemed to be followed by “without limitation” or “but not limited to.”
- (c) References herein to one Party to this Agreement, other agreements, or documents shall include the successors or licensed assignees.

II. Acquisition of the Target Shares

2.1 Acquisition Approach

Subject to the terms and conditions of this Agreement, the Sellers agree to transfer the Target Shares to the Purchasers at the price as provided in Section 2.2, and the Purchasers agree to purchase the Target Shares. Specifically:

- (a) Each of the Existing Shareholders of the Cayman Company will sell all of its equity interests in the Cayman Company to Gamease Hong Kong; and
- (b) Each of the Existing Shareholders of the VIE Company will sell all of his equity interest in the VIE Company to Gamease Age.

Each Seller hereby acknowledges that it consents to the sales by the other Sellers of their Target Shares, and irrevocably waives the right of first refusal and other similar preferential rights based on applicable law, articles of association of the VIE Company and/or the Cayman Company, Shareholders Agreement or any other organizational documents, regarding the Target Shares sold such other Sellers.

After the Closing (defined below) hereof, the Existing Shareholders of the VIE Company will no longer be parties to the VIE Agreements, since they no longer hold any equity interest in the VIE Company, and Gamease Age will continue performing the VIE Agreements as the sole shareholder of the VIE Company. The WFOE agrees to the transfer transaction under Section 2.1(b), and for the purpose of the Closing hereof, agrees to remove the pledge on the equity interests in the VIE Company held by the Existing Shareholders of the VIE Company (including issuing necessary letters of approval regarding the removal of pledge and other documents as requested by the Industrial and Commercial Administration).

2.2 The Acquisition Consideration

- (a) The Parties agree that, after friendly consultation, subject to the terms and conditions hereof, the Purchasers shall pay \$78,010,052 (“**Acquisition Consideration**”) to the Sellers in total, regarding the acquisition of the Target Shares. Of the Acquisition Consideration, the Existing Shareholders of the Cayman Company shall receive \$46,268,052 (“**Overseas Consideration**”) as the consideration of the transfer of all their equity interests in the Cayman Company, and the Existing Shareholders of the VIE Company shall receive Renminbi equivalent to \$31,742,000 (“**Domestic Consideration**”) as the consideration of the transfer of all their equity interests in the VIE Company.

The Parties confirm and agree that the aforesaid Domestic Consideration shall be paid to the Sellers in accordance with Section 2.3 of this Agreement by the Purchasers in Renminbi, at an exchange rate of 6.206 Yuan for 1 U.S. dollar.

- (b) The Parties confirm and agree that the Acquisition Consideration shall include the consideration for any and all undistributed profits of the 7Road Group associated with the Target Shares up to the Closing Day (defined as below). The Sellers may not further request to distribute any profits of the 7Road Group with respect to the Target Shares.
- (c) Regarding the amount of Acquisition Consideration provided in Section 2.2 of this Agreement, in the case that the Purchasers is required to withhold related tax from the Acquisition Consideration in accordance with applicable tax laws and regulations, the Purchasers may accordingly withhold such tax.

2.3 Payment of The Acquisition Consideration

- (a) The Parties acknowledge and agree that, subject to terms and conditions of this Agreement, the Purchasers shall pay the Acquisition Consideration in cash to the following accounts designated, respectively, by the Sellers (“**Designated Accounts**”) after deducting any withholding tax (if applicable), in accordance with the allocation among the Sellers, the amounts of each installment payment and the timing of payment as follows:

		The Acquisition Consideration (\$)	Time of payment/amount of payment by the Purchasers(\$)		
			The First Payment Day(as defined below)	The Closing Day(as defined below)	The Last Payment Day(as defined below)
<u>The Sellers</u>	Johnny, Cao Kai	25,590,000	17,913,000	7,677,000	0
The Existing Shareholders of the VIE Company	Kent, Yang Zhiyi	2,090,000	1,463,000	627,000	0
	Justin, Long Chunyan	2,090,000	1,463,000	627,000	0
	Ben, Meng Shuqi	1,972,000	1,380,400	591,600	0
The Existing Shareholders of the Cayman Company	BVI-I	34,642,002	23,172,680	9,931,149	1,538,173
	BVI-II	3,949,682	2,654,951	1,137,836	156,895
	BVI-III	3,949,682	2,654,951	1,137,836	156,895
	BVI-IV	3,726,686	2,505,054	1,073,595	148,037

The Sellers

Johnny, Cao Kai

Kent, Yang Zhiyi

Justin, Long Chunyan

Ben, Meng Shuqi

The Designated Accounts

*

*

*

*

The symbol ‘ * ’ in this exhibit indicates places where information has been omitted pursuant to a request for confidential treatment and filed separately with the SEC.

Account Name: Burgeon Max Limited
Bank of Deposit: *
Swift ID: *
Account Number: *
Bank Code: *
Message: *

BVI-I

Account Name: Cadgwith Investments Limited
Bank of Deposit: *
Swift ID: *
Account Number: *
Bank Code: *
Message: *

BVI-II

Account Name: Double Merits Holdings Limited
Bank of Deposit: *
Swift ID: *
Account Number: *
Bank Code: *
Message: *

BVI-III

Account Name: Euro Logistics Limited
Bank of Deposit: *
Swift ID: *
Account Number: *
Bank Code: *
Message: *

BVI-IV

- (b) The Sellers shall immediately issue and submit a written confirmation as formal receipt voucher to the Purchasers upon receiving each aforesaid payment.
- (c) Notwithstanding the foregoing, in the case that the Sellers are found to be in breach of their representations and warranties or obligations or covenants under this Agreement at any time, the Purchasers may claim against the Sellers for liabilities and indemnification pursuant to Article 9 of this Agreement.

2.4 First Payment, Closing and Last Payment

- (a) The First Payment shall be paid to the Sellers at the first following Business Day after all the conditions precedent provided in Section 4.1(a) to 4.1(m) of Article 4 hereof have been satisfied or waived by the Purchasers in written form pursuant to Section 4.1 or other date agreed by the Purchasers and the Sellers ("**First Payment Day**") by the Purchasers in accordance with Section 2.3 of this Agreement. As conditions precedent of

The symbol ‘ * ’ in this exhibit indicates places where information has been omitted pursuant to a request for confidential treatment and filed separately with the SEC.

payment of First Payment, the Sellers shall designate a person with legitimate authorization of the Sellers, to issue and submit a confirmation letter to the Purchasers, which confirms that all the conditions precedent provided in Section 4.1(a) to 4.1(m) that the Sellers are responsible for have been satisfied or validly waived by the Purchasers, and provide the Purchasers with original copies/items of all related documents, certifications and items before the First Payment Day (no later than 1 Business Day before the First Payment Day).

- (b) The Closing shall take place at the time and the location agreed by Parties, on the first succeeding Business Day after all the conditions precedent of acquisition of the Target Shares provided in Article 4 hereof have been satisfied (or have been waived in written form by related Party who is permitted to waive pursuant to Section 4.1 and Section 4.2) or other date agreed by the Parties ("**Closing Day**").

If the failure of occurrence of the Closing is attributed to any Party (e.g., failure to perform obligations under this Agreement leading to the failure to satisfy the conditions precedent which such Party is responsible for), the Parties shall deal with it in the way provided in Article 11 of this Agreement.

Unless otherwise provided in the Domestic Separate Agreement or the Overseas Separate Agreement (as defined below), upon the Closing Day, the Purchasers and the Sellers shall designate a person respectively with their legitimate authorization, to issue and submit a confirmation letter to the opposite side, which confirms that all the conditions precedent provided in Section 4.1 (applicable to the Sellers) or Section 4.2 (applicable to the Purchasers) that the Parties are responsible for respectively have been satisfied as of the Closing Day (or waived by the opposite side), and provide the opposite side with original copies/items of all related documents, certifications and items (if such original copies/items shall be provided to the opposite side before the Closing Day pursuant to provisions of this Agreement, such provisions shall be observed).

- (c) From the Closing Day until the first anniversary date of the Closing Day, (i) if the Sellers do not breach any representation and warranty or any covenant or obligation under this Agreement, the Purchasers shall pay the Last Payment to the Sellers in accordance with Section 2.3 hereof on the fifth Business Day after the first anniversary date of the Closing Day or any other date agreed to by the Purchasers and the Sellers ("**Last Payment Day**"),

(ii) if the Sellers breach any representation and warranty or any covenant or obligation under this Agreement, the Purchasers may choose not to pay the Last Payment and shall give a written notice to the Sellers not later than the fifth Business Day after the first anniversary date of the Closing Day. Nevertheless, the aforesaid arrangement related to the Last Payment shall not replace, terminate, exclude, and limit the Purchasers' right to claim against the Sellers for responsibility of default in accordance with provisions hereof, regarding the Sellers' breach of any representation and warranty or any obligation or covenant under this Agreement.

2.5 Separate Equity/Share Transfer Agreement

To consummate the transaction under this Agreement, the Parties agree to, (1) before Closing, duly execute and submit an Equity Transfer Agreement in the form of the VIE Company Equity Transfer Agreement attached hereto as Exhibit I ("**Domestic Separate Agreement**"), which will be used for submission to relevant Governmental Department and handling formalities and procedures required to transfer and register the equity in the VIE Company, and (2) before Closing, duly execute and submit a separate Share Transfer Agreement in the form of the Cayman Company Share Transfer Agreement attached hereto as Exhibit II ("**Overseas Separate Agreement**"), which will be used for handling formalities and procedures required to transfer the shares of the Cayman Company. For the avoidance of doubt, the Domestic Separate Agreement and the Overseas Separate Agreement shall be interpreted and applied together with this Agreement as a whole. Matters not included in the Domestic Separate Agreement and the Overseas Separate Agreement shall be implemented in accordance with this Agreement. Every related Party shall fully and duly perform his or its obligations under the Domestic Separate Agreement and the Overseas Separate Agreement, and any violation of such agreements shall be deemed as a violation under this Agreement. In the event of any conflict between the terms of the Domestic Separate Agreement or the Overseas Separate Agreement and this Agreement, the terms of this Agreement shall prevail.

2.6 Effects on Prior Agreements

Effective on the First Payment Day, (i) all agreements in Section 4.2 of the Share Transfer Framework Agreement shall be terminated, and the Sellers hereby unconditionally and irrevocably waive any original right, demand and claim under such Section; (ii) the non-compete obligations of the Sellers under the Share Transfer Framework Agreement, the Shareholders Agreement of the VIE Company, the Shareholders Agreement of the Cayman Company and the Labor Contracts and Non-compete Agreements between the Sellers and the VIE Company, shall be terminated, provided however, that the Sellers shall continuously observe Section 7.1(e) and 7.2(a) of this Agreement; (iii) the Shareholders Agreement of the VIE Company and the Shareholders Agreement of the Cayman Company shall be terminated. Notwithstanding the foregoing, such terminations shall not exclude or affect a Party's right to claim against other parties for liabilities arising from such sections and other sections under aforesaid agreements.

III. Tax, Costs and Expenses

The Sellers and Purchasers shall be responsible for their own taxes (including but not limited to enterprise income tax, personal income tax and stamp tax) and any related adverse consequences (if any) arising from the consummation of the transactions in this Agreement which are attributable to them according to applicable law. If the Sellers incur any economic losses to the 7Road Group, the Purchasers or their Affiliates due to any violation by the Sellers of any applicable laws such as failure to fulfill their related tax declaration or taxation payment obligations, the Sellers shall indemnify the 7Road Group, the Purchasers or the Affiliates of the Purchasers accordingly and all members of the Sellers shall bear joint liability.

In addition, the Sellers and the Purchasers shall assume their own costs and expenses paid or to be paid relating to the due diligence, preparation, negotiation and preparation of documents regarding the transactions of this Agreement, including engaging external lawyers, accountants, other professional consultants, negotiation and preparation of this Agreement and the completion of the transactions of this Agreement.

The Sellers and the Purchasers shall not incur any cost and expense to the 7Road Group due to execution and submission of this Agreement, performance of the obligations under this Agreement or preparation and implement of the transactions of this Agreement.

IV. Conditions Precedent

4.1 Conditions precedent for the Purchasers to agree on the Closing

The Purchasers' obligation to proceed with the Closing is subject to the fulfillment, , on or before the Closing Day (unless otherwise expressly agreed that certain conditions can only be satisfied on the Closing Day), of the conditions precedent provided under Section 4.1(a) through 4.1(o) (unless otherwise waived by the Purchasers in writing).

- (a) All representations and warranties made by the Sellers in Article 5 of this Agreement are true, correct and without any material omissions, as of the date of this Agreement and the Closing Day.
- (b) The Sellers have duly fulfilled all obligations and complied with all undertakings which shall be fulfilled and undertaken before the Closing Day, pursuant to this Agreement.
- (c) Shareholder meeting of the VIE Company has passed a resolution to approve the execution and performance of this Agreement as well as the consummation of the transaction of sale and acquisition of the equity interests in the VIE Company hereunder; and all of the Existing Shareholders of the VIE Company have voted for such meeting resolution.
- (d) The shareholders of the Cayman Company have passed a resolution to approve the execution and performance of this Agreement as well as the consummation of the transaction of sale and acquisition of the equity shares of the Cayman Company hereunder; and all of the Existing Shareholders of the Cayman Company have voted for such meeting resolution.
- (e) As of the date hereof, each of Johnny, Cao Kai, Kent, Yang Zhiyi, Justin, Long Chunyan has voluntarily and effectively resigned from any position in the 7Road Group including as a director, supervisor and senior manager; Ben, Meng Shuqi has voluntarily resigned as a director of any company of the 7Road Group as of the date of this Agreement. On the same day, the shareholders of each of the Cayman Company and the VIE Company have passed resolutions to elect the candidates, nominated by the Purchasers, to serve as the new directors, supervisors and senior managers of such company; and all of the Sellers have voted for such meeting resolutions.
- (f) After the date of this Agreement, the Sellers shall have used their best efforts to cooperate with the Purchasers to conduct the preliminary core technology test and accept the core assets after examination immediately, regarding all the business platforms of the 7Road Group, and have used their best efforts to assist the Purchasers in organizing related technology, business, financial, human resources, legal departments to test, accept after examination and check the business operation, enterprise management and condition of the assets of the 7Road Group and assist the Purchasers with

the matters of relevant departments listed in Exhibit III hereto and accept after examination all the listed items, documents and materials. The Purchasers agree to complete the test and acceptance after examination provided in this section within 10 Business Days after the date hereof and the Sellers shall provide assistance. Unless otherwise proved that the Sellers haven't provided assistance in their best efforts, the expiration of the aforesaid duration is deemed as the fulfillment of the test, accept after examination and check obligations by the Sellers provided in this section

- (g) The Sellers have executed related Intellectual Property Rights Transfer Agreement with the VIE Company, pursuant to which the Sellers have unconditionally and irrevocably transferred all and any of their intellectual property rights related to the 7Road Group and its business or that may affect the business of the 7Road Group, to the VIE Company free of charge, whether or not the creation and improvement of such intellectual property rights are made independently or jointly, during working time or other time, at the place of business of the 7Road Group or other places. With regard to any transfers that require registration and/or approval of Governmental Department, the Sellers, together with related Parties, have submitted such transfer agreements and other related application materials to the competent intellectual property rights administration department for registration of such transfers, which applications have been formally accepted by such department.
- (h) Ben, Meng Shuqi has confirmed to stay in his post for a period of at least one year after the Closing Day.
- (i) No Governmental Departments or regulatory bodies of the PRC or any other jurisdictions have released, formulated or implemented any laws, regulations, rules, orders or notices prohibiting the transactions hereunder. No pending litigation, arbitration, dispute, investigation or any other pending legal proceedings or matters which prohibit or cause Material Adverse Changes to the transactions hereunder or cause the invalidity or unenforceability of this Agreement.
- (j) No material change has happened to the capital or ownership of the 7Road Group and no Material Adverse Change, bankruptcy, insolvency or failure to pay any due and payable debts have happened to the 7Road Group.

- (k) In the case that before the acquisition of shares in the VIE Company by Gamease Age, the removal of the pledge of equity shares in the VIE Company held by the Existing Shareholders of the VIE Company, or execution of any agreement or document by the WFOE and the Existing Shareholders of the VIE Company, are required by the Industrial and Commercial Administration, the Existing Shareholders of the VIE Company have finished the aforesaid work as requested by the Industrial and Commercial Administration.
- (l) The Existing Shareholders of the Cayman Company have caused the Cayman Company to issue a Register of Members and a Register of Directors and Officers, both of which have been validly registered, certified and updated.
- (m) The Existing Shareholders of the VIE Company have caused the VIE Company to issue a Register of Members that the Gamease Age has been registered as the sole shareholder of the VIE Company. Moreover, the Existing Shareholders of the VIE Company and the VIE Company have submitted all necessary application documents with respect to the transaction of the transfer of shares in the VIE Company hereunder, the related changes of shareholders, directors, supervisors and senior managers of the VIE Company and the filing of any amendment of its articles of association, and such applications have been formally accepted. Applications for registration of any changes of directors, supervisors and senior managers of the WFOE have also been duly submitted to Industrial and Commercial Administration and such applications have been formally accepted.
- (n) The Existing Shareholders of the Cayman Company have caused the Cayman Company to issue a valid share certificate, which proves that all the issued shares of the Cayman Company are held by Gamease Hong Kong.
- (o) The Existing Shareholders of the VIE Company have caused and cooperated with the VIE Company to have successfully obtained the written notices issued by the Industrial and Commercial Administration to indicate its approval of the change of registration and filing, regarding the transaction of the transfer of shares in the VIE Company hereunder and the related changes of shareholders and amendment of the articles of association, and the VIE Company has been issued a new Business License (if required).

4.2 Conditions precedent for the Sellers to agree on the Closing

The Sellers' obligations to sell the Target Shares to the Purchasers are subject to the fulfillment, on or before the Closing Day (unless otherwise waived by the Sellers in writing), of the conditions provided in following Section 4.2(a) to 4.2(c).

- (a) All representations and warranties made by the Purchasers in Article 6 of this Agreement are true, correct and without any material omissions, as of the date of this Agreement and the Closing Day.
- (b) The Purchasers have duly fulfilled all obligations and complied with all undertakings which shall be fulfilled and undertaken before the Closing Day pursuant to this Agreement.
- (c) No Governmental Departments or regulatory bodies of the PRC or any other jurisdictions have released, formulated or implemented any laws, regulations, rules, orders or notices prohibiting the transactions hereunder. No pending litigation, arbitration, dispute, investigation or any other pending legal proceedings or matters which prohibit or cause Material Adverse Changes to the transactions hereunder or cause the invalidity or unenforceability of this Agreement.

V. Representations and Warranties of The Sellers

The Sellers severally and jointly represent and warrant to the Purchasers that, on the date hereof and as of the Closing Day:

5.1 Qualifications, powers and rights

- (a) If any of the Sellers is a company
 - (i) Such Seller is a legal person incorporated and effectively existing under the laws of the place of registration.
 - (ii) Such Seller has complete, exclusive, legitimate and effective rights and ownership of its Target Shares, free from any Encumbrance. Except for the Target Shares, such Seller does not hold any other shares/equity interests in the 7Road Group in any form or any rights convertible into any equity interests/shares in the 7Road Group (including but not limited to Restricted Share or RSUs settleable into Class A Ordinary Share in the Cayman Company).

- (b) If any of the Sellers is a natural person
 - (i) He/she is a PRC citizen with legitimate rights and capability to sign this Agreement and perform his or her obligations under this Agreement.
 - (ii) He/she has complete, exclusive, legitimate and effective rights and ownership of his/her Target Shares from any Encumbrance (except the pledge under the VIE Agreements). Except for the Target Shares, such Seller does not hold any other shares/equity interests in the 7Road Group in any form or any rights convertible into equity interests/shares in the 7Road Group.

5.2 Authorization, validity of this Agreement

- (a) If any of the Sellers is a company
 - (i) Competent governing body of the Seller has officially held necessary meetings and approved this Agreement and the consummation of the transactions under this Agreement.
 - (ii) The Seller has complete rights and authority to execute and deliver this Agreement and consummate the transactions under this Agreement. This Agreement has an effective binding force on the Seller once signed and delivered by the Seller.
 - (iii) The execution, delivery and performance of this Agreement by the Seller and the consummation of the transactions hereunder or complying with the provisions of this Agreement will not (A) conflict with or cause violation of effective articles of association or similar organizational documents of such Seller or the 7Road Group; (B) cause or constitute violation to any agreement clauses, conditions or stipulations to which the Seller is a party; (C) violate any approval documents, orders, laws, regulations or rules applicable to the Seller, the 7Road Group or their respective properties or assets.
- (b) If any of the Sellers is natural person
 - (i) This Agreement has a lawful, effective binding force on the Seller once it is duly executed by the Seller.
 - (ii) The execution and performance of this Agreement by the Seller will not violate or conflict with any applicable law, any agreement to which the Seller is a party or which has any binding effect on the property of the Seller, or any judgment, award, or decision by regulatory authorities.

5.3 Business and operation of the 7Road Group

- (a) The 7Road Group does not violate its articles of association and other corporate organizational documents or all the applicable PRC laws and regulations. There is no necessary government licenses, approvals, authorizations or permissions (collectively referred to as the “**Governmental Approvals**”) that have not been obtained in connection with the operation of the current important business of the 7Road Group and each of the Governmental Approvals remains completely effective. There is no pending or, to the knowledge of the Sellers, threatened legal proceedings that may cause any revocation, cancellation, suspension or revision to the Governmental Approvals.
- (b) The operation of business of the 7Road Group, especially the VIE Company is in good status, while the computer system and technology platform functions and maintains in normal conditions, where no material defects or hidden dangers exist.
- (c) All the joint operation agreements on the game research, development and operation between the 7Road Group and domestic game operation websites and the licensed operation agreements or joint operation agreements between the 7Road Group and overseas game operators have been properly and effectively executed. The 7Road Group complies strictly with such agreements and other agreements, contracts and other legal documents that may have material impacts on the current business and operation of the 7Road Group and has not breached any such agreements, contracts or legal documents.
- (d) The 7Road Group does not have the intention of investing abroad, co-investing with any third party, merging, acquiring, dividing or jointly operating with others, or signing any related documents; and there is no third party’s right which affect and restrict the transactions provided in this Agreement.

5.4 Compliance

- (a) The 7Road Group has never committed any criminal offense, infringing activity or conducted any other behaviors violating any law and regulation or obligation where such behaviors relate to and have material impact on the 7Road Group or its business.

- (b) The 7Road Group is under no negative government investigation or inquiry, and there is no factual basis that may lead to such investigation or inquiry.
- (c) There is not any failure of meeting any requirement of related Governmental Departments or any dispute with any Governmental Department, where such failure or dispute will cause Material Adverse Effect on the 7Road Group or its assets.

5.5 Assets of the 7Road Group

- (a) Assets of the 7Road Group are not subject to eminent domain by any governmental authority or any plan for possessing or collecting all or part of such assets. The construction and location of any asset of the 7Road Group and the ownership or use of such assets and assets themselves have not violated any provision of any law and regulation or other legal requirements. All such assets owned or used by the 7Road Group have been properly maintained and repaired and can be used for the purpose for which such assets were designed, obtained and used, and are in good conditions as of this Agreement.
- (b) As to the real estates and movable properties (collectively referred to as the “**Properties**”) used in the operations of business, the 7Road Group has complete and transferable ownership or legitimate and effective leasehold rights, free from any rights and interests of any third party. There is no pending, or to the knowledge of the Sellers, threatened legal proceedings related to the Properties such as confiscation, forced transfer, freezing or other similar procedures.
- (c) The 7Road Group owns all necessary intellectual property rights for the operation of its current business (including but not limited to the whole game business operation), including but not limited to the legal right, the right of use through licenses or the right of use through other legal means of the confidential and/or proprietary information, trade secrets, trademarks, software copyrights and any other intellectual property rights. The Sellers do not own any other intellectual property rights in connection with the 7Road Group and its operation of business (registered or not), except for those to be transferred to the 7Road Group as defined above in Section 4.1(h). The intellectual property rights transferred by the Sellers to the 7Road Group in accordance with Section 4.1(h) are free from any pledge, mortgage, guarantee or any other rights of third party, and the foresaid transfer does not require any approval of or authorization from any third party.

5.6 Information disclosure

The Sellers have provided the Purchasers the information and materials, as necessary to be disclosed based on their reasonable judgment, which is required to complete the transactions under this Agreement. The aforesaid information and materials do not contain any untrue statement of material facts and do not omit any statement of material facts.

5.7 Financial materials

Financial statements of the 7Road Group are prepared according to applicable U.S. GAAP, and fairly present the financial status, operation performance and cash flow of the 7Road Group, which are correct in all material aspects. Except for the debts disclosed in the financial statements, the 7Road Group has no other debts of any nature, including but not limited to: (i) any guaranty of any loan of others or similar obligations or responsibilities; and (ii) any financing services to any third parties (including its clients and affiliates), such as providing loans or reaching an agreement to assist such third parties in obtaining loans.

5.8 Labor and Managers

Directors, supervisors and senior managers of the 7Road Group nominated and/or appointed by the Sellers have performed their duties diligently, and are free from any incidence of violating their obligation to be honest and diligent toward the 7Road Group or impairing the benefits of the 7Road Group, as well as any obligation of directors, supervisors and senior managers under any applicable law and regulation; articles of association, shareholders agreement and other organizational documents of the members of the 7Road Group; any employment agreement and non-competition agreements signed by the aforesaid persons.

The WFOE and the VIE Company have not violated any current effective PRC law and regulation on social insurance and housing accumulation funds, including all the requirements on payments of social insurance and housing accumulation funds for employees; there is neither employment litigation or arbitration that may cause Material Adverse Effect on business, nor pending or threatened strikes and disputes with labor unions or other labor organizations.

Exhibit 4 of this Agreement provides a true, precise and complete name list of all key employees in the business operation and management of the 7Road Group, which does not omit any material information. The aforesaid employees (except Johnny, Cao Kai, Kent, Yang Zhiyi, Justin, Long Chunyan, whose employment will be terminated on the signing date of this Agreement as agreed to under this Agreement) properly remain in service and free from any dismissal or resignation. Exhibit 5 of this Agreement provides a true, precise and complete name list of all employees in-service of the 7Road Group as of January 1, 2013.

5.9 Equity incentive plan for employees

There is no other official or unofficial equity incentive plan or shareholding plan that binds the 7Road Group or affects the current or future equity structure of the 7Road Group except for the equity incentive plan adopted by the Cayman Company in July, 2012 (“**2012 Share Incentive Plan**”). Incentive awards granted under the 2012 Share Incentive Plan have not been vested, and unless there is an IPO of the 7Road Group (as contemplated in the Share Transfer Framework Agreement), no Restricted Share or RSUs issued or granted under such incentive plan will be vested or have any possibility of being vested or settled.

5.10 Tax

There are neither pending or threatened investigations or other similar tax related proceedings causing Material Adverse Effect on the 7Road Group, nor any violations of laws and regulations on tax by the 7Road Group. Each member of the 7Road Group declares and pays tax in accordance with laws and regulations and is free from any evasion or delay payment of tax or other violations of laws and regulations on tax.

5.11 Litigation

There are no legal proceedings, arbitrations, disputes or other legal procedures which may cause significant losses to the 7Road Group or serious disturbances to the operation of its current business.

5.12 Consents

No consent to the consummation of the transactions under this Agreement from any third party granted to the 7Road Group is necessary to be obtained, including the consent under any loan contract, guarantee contract and other material contracts.

5.13 Related party transactions

Terms and conditions in each related party transaction of the 7Road Group are not less favorable to the 7Road Group than those with independent third parties in similar transactions; and (i) the 7Road Group does not, directly or indirectly, owe any debt to its shareholders or their Affiliates; and (ii) no shareholder of the 7Road Group or their Affiliates owes any debt to the 7Road Group.

5.14 No other agreements

Except for those referred to in this Agreement (including the Share Transfer Framework Agreement, the Shareholders Agreement of the VIE Company, the Shareholders Agreement of the Cayman Company, Labor Contracts and Non-compete Agreements between the Sellers and the VIE Company, the VIE Agreement), the Sellers and the 7Road Group have no other agreement or contract.

VI. Representations and Warranties of the Purchasers

The Purchasers represent and warrant to the Sellers on the signing date of this Agreement, and as of the Closing Day:

6.1 Qualifications

Each of the Purchasers is incorporated and effectively existing under applicable laws of its place of registration with a legal person status.

6.2 Authorization, validity of this Agreement

The Purchasers have complete rights and authority to execute and deliver this Agreement and consummate the transactions under this Agreement. This Agreement, after duly execution and submission, constitutes legitimate, effective and binding obligations of the Purchasers in accordance with the terms hereof, and unless otherwise provided in applicable laws, it can be performed according to the terms of this Agreement.

6.3 Approval by competent authorization organs

The competent governing bodies of the Purchasers have held relevant meetings and approved this Agreement and the transactions under this Agreement.

6.4 No violations of laws and no defaults

The execution, delivery and performance of this Agreement and the consummation of the transactions hereunder or complying with the provisions of this Agreement by the Purchasers will not (i) conflict with or cause violation of any provision provided in the respective effective articles of association of the Purchasers; (ii) cause violation of terms, conditions or stipulations of material agreements to which the Purchasers are parties; (iii) violate approval documents, governmental documents, orders, laws, regulations or rules applicable to the Purchasers or its any property or asset. Notwithstanding the foregoing, if violations and defaults under above (ii) and (iii) will not, individually or collectively, cause any Material Adverse Effect to the transactions hereunder, they will not be deemed as violations of this Section.

6.5 Other Warranties

The Purchasers have sufficient funding and capability to pay the Sellers for the Acquisition Consideration under this Agreement.

VII. Covenants of the Sellers

7.1 Pre-Closing Covenants

The Sellers covenant, severally and jointly, to the Purchasers that, as of the Closing Day, they shall:

- (a) ensure the fulfillment of the conditions precedent provided in Section 4.1, including but not limited to (i) taking necessary measures to ensure the execution and delivery of documents relating to the conditions precedent to which the Sellers are parties; (ii) Ben, Meng Shuqi having agreed to remain in his current position for at least one year from the Closing Day; (iii) ensuring that the important documents, materials, and items stipulated in Section 4.1 have been delivered before the Closing, and the arrangements for the Purchasers to accept the business and assets after examination before the Closing are properly made; and (iv) having made reasonable and necessary efforts to assist the Cayman Company and the VIE Company to complete the registrations of the transfers of the Target Shares, in accordance with applicable laws at the relevant registration authority and the department of industry and commerce administration, in order to complete the all registration and share transfer procedures of all the Target Shares transferred to the Purchasers hereunder;

- (b) make best efforts to assist the 7Road Group to continue its business in the same manner as it did on or before the signing date of this Agreement in order to assist to avoid any changes detrimental to the operation and financial status of the 7Road Group; make commercially reasonable and necessary efforts to assist the 7Road Group to comply with applicable laws in all material aspects and to keep its business and its relations with clients, cooperators, creditors and employees in a regular way; and assist to maintain the stability of the assets of the 7Road Group;
- (c) unless for purposes of taking actions to effectuate this Agreement, to meet the need of the this Agreement or to conduct business operations, any acts or omissions procuring, causing and proposing the 7Road Group to conduct the following are prohibited (unless the Purchasers have already been aware of and approved such matters): (i) signing agreements or making commitments with value over RMB0.5 million Yuan; (ii) signing, revising, terminating any contract/commitment, or reaching any agreement or making any commitment, or borrowing money, or assuming any other debt; (iii) revising organizational documents and accounting policies of the 7Road Group (with the exception of revisions required by any law, provision or rule); (iv) providing any guaranty of any obligations of a third party, or signing any guarantee, compensation or other agreements to create any security interest over the assets or business of the 7Road Group; (v) increasing or decreasing the registered capital of the 7Road Group, or commencing any reorganization, bankruptcy or any procedure to terminate its business ; (vi) canceling, exempting, relieving or terminating its claims against any person, or concerning any pending litigation, arbitration and dispute, commencing any conciliation procedures; (vii) selling, leasing, licensing, transferring or disposing any asset (including but not limited to intellectual property rights) or changing any of its current business; or (viii) declaring or distributing any bonus or other distributions;
- (d) submit all documents or items to the Purchasers in a timely manner as required on and before the Closing Day under this Agreement; in order to meet the requirements under Section 4.1 regarding testing, acceptance after examination and inventory, the Sellers shall cause the technology, business, finance, human resource, legal and other relevant departments of the 7Road Group to prepare the items, documents and materials involved in the foresaid procedures for the acceptance after examination and handover;

- (e) Johnny, Cao Kai, Kent, Yang Zhiyi, Justin, Long Chunyan and Ben, Meng Shuqi agree, on a joint and several basis, from the signing date of this Agreement until the second anniversary date of the Closing Day, without a prior written consent by the Purchasers, not to seek, allure, cause or permit, or assist others to seek, allure, cause or permit, or, in the activities supporting the foresaid matters, liaise with, any employee of the 7Road Group to terminate his employment with the 7Road Group. Johnny, Cao Kai, Kent, Yang Zhiyi, Justin, Long Chunyan and Ben, Meng Shuqi agree, on a joint and several basis, from the signing date of this Agreement until the second anniversary date of the Closing Day, in respect of the following employees of the 7Road Group: (a) all the in-service 7Road Group employees as of January 1, 2013 as listed in Exhibit 5; (b) all the employees employed by the 7Road Group after January 1, 2013; and (c) any key employee of the 7Road Group listed in Exhibit 4, without a prior written consent by the Purchasers, not to, nor procure any entity or individual which they control, directly or indirectly invest in or co-operate in any method (including being an owner, shareholder, partner, director, manager, adviser or consultant) to: (a) enroll, accept; or (b) assist others to enroll, accept, such employees, whether or not such employees will be accepted as employees, investors, shareholders, partners, directors, managers, advisers or consultants or in any other identities;
- (f) ensure that Ben, Meng Shuqi (after his resignation as a director but keeping his other positions) shall remain in his current positions for a period of at least 1 year after the Closing Day.
- (g) The Sellers make the reasonable best efforts to assist the Purchasers incompletely taking over the 7Road Group, and to assist the 7Road Group in achieving a smooth transition of its business operation and management.

7.2 Post-Closing Obligations

The Sellers covenant, on a joint and several basis, that after the Closing Day, they shall:

- (a) continue to perform the covenants provided in Section 7.1(e) and 7.1(g);
- (b) in respect of the intellectual property rights transfer matters provided in Section 4.1(h), if it is objectively impossible to complete the registration/ratification of the right-holder changes with intellectual property rights administration departments prior to the Closing Day, the efforts to complete such matters (including but not limited to possible

requirements by government administration department and supplements of relevant materials) should continue after the Closing. The Sellers shall complete all foresaid registration/ratification procedures no later than six-month anniversary date of the Closing Day, to effectively transfer the intellectual property rights to the 7Road Group;

- (c) after the Closing Day, the Sellers shall comply with the requirement of Notice of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies as well as the detailed rules for the implementation of such Notice, by filing applications for the cancellation of foreign exchange registration of abroad investment by the individuals with the Shenzhen Branch of the State Administration of Foreign Exchange as soon as possible since they no longer hold the shares of the Cayman Company. Such cancellation shall be completed no later than three months after the Closing Day, unless any delay of such cancellation was caused by reasons that cannot be ascribed to the Sellers, but under any event should such cancellation be completed no later than the six-month anniversary date of the Closing Day.

VIII. Covenants of the Purchasers

8.1 Pre-Closing Covenants

- (a) Take necessary measures to ensure the signing and submission of documents relating to the conditions precedent to which they are parties;
- (b) Pay the Acquisition Consideration in accordance with this Agreement.

IX. Default and Indemnifications

Unless otherwise provided in this Agreement, if a Party (referred to as the **“Breaching Party”**) fails to fulfill the obligations under this Agreement or makes untrue, inaccurate or misleading representations and warranties which violate this Agreement, such Breaching Party shall indemnify other non-breaching parties (referred to as the **“Non-Breaching Parties”**) for any expenses, losses, liabilities, damage compensation and reasonable expenditures incurred from such breaches, and:

- (a) if the foregoing breach is committed by more than one Party, each Breaching Party shall indemnify for the collective expenses, losses, responsibilities, damage compensations, disbursements and requests with other Breaching Parties on a joint and several basis;
- (b) in respect of the indemnification responsibilities of any of the Sellers under this Agreement, the other Sellers have an obligation to bear them on a joint basis;
- (c) the Purchasers who delay the payment of Acquisition Consideration without good reasons shall pay an additional 0.05% of the account payable per day to compensate for breaching.

The amount of expenses, losses, liabilities, damage compensations and reasonable expenditures caused by any default of one Party to other Parties (referred to as the “**Amount of Loss**”) shall be determined according to the enforceable legal documents including judgment, arbitration award, verdict, ruling and decision of punishment relating to the default activities of the Breaching Party issued by competent court, arbitration authority, other dispute resolution organizations or governmental authorities. If the Amount of Loss cannot be identified through the foregoing way, then the Parties agree to settle the disputes according to the methods and procedures of resolution of disputes provided in Article 11.

The indemnification set forth in Section 9.1 (a) is additional, which shall not restrict other rights that may be acquired by Non-Breaching Parties according to this Agreement or current laws. The Parties acknowledge and agree that if any of the Parties fails to perform as provided in the specified articles of this Agreement, which may cause irreparable losses to the other Party, Non-Breaching Parties may not be adequately compensated solely by damages due to the breach of contract of any of the Parties. Therefore, besides any other legitimate rights and remedies, Non-Breaching Parties are entitled to enforce this Agreement through a verdict of substantial performance, and to obtain the temporary, preliminary and permanent injunctions in order to prevent any breach or potential breach of this Agreement by the other Party.

X. Termination

10.1 Termination due to defaults

- (a) Unless otherwise provided in this Agreement, if any Party violates any material obligation under or provided by this Agreement, or makes any representation and warranty under or provided by this Agreement that are not true, not accurate, or misleading (considered as material violations of this Agreement) and does not rectify its violations within 15 days upon receiving written notification (or if such violations cannot be rectified, upon receiving the notification), any other Party, without prejudice to any other possible existing rights, may notify the other Parties in writing to terminate this Agreement before the Closing Day.
- (b) Any Party that terminates this Agreement according to Section 10.1 will not affect its rights to hold the Breaching Party liable according to provisions of Article 9 and laws.

10.2 Termination due to Material Adverse Changes and non-completion of conditions

Without prejudice to any other rights under this Agreement (including but not limited to any claims for the indemnifications of the Sellers for any default of their obligations), the Purchasers may notify the other Parties in writing to terminate this Agreement, if:

- (a) as of the 120th day after the signing date of this Agreement, any condition precedent still cannot be met and the Purchasers decide not to waive such unfulfilled condition precedent; or
- (b) if any Material Adverse Changes occur before the Closing Day, and within 30 days after the issuance of written notification indicating such Material Adverse Changes by the Purchasers to the other Parties, relevant Parties fail to reach any mutually acceptable solutions in writing.

10.3 Effect of Termination

If any Party terminates this Agreement pursuant to the terms of this Agreement, the Parties will be exempted from their respective obligations under this Agreement except for Article 5 (Representations and Warranties of the Sellers), Article 6 (Representations and Warranties of the Purchasers), Article 9 (Breach and Indemnity), Article 10 (Termination), Article 11 (Applicable Law and Resolution of Disputes), Section 12.2 (Notice), Section 12.3 (Confidentiality), Section 12.6 (Severability) and Section 12.7 (Non-waiving of rights). All above mentioned articles shall continue to be in full force and effect after the termination of this Agreement.

XI. Applicable Law and Resolution of Disputes

11.1 Applicable law

The effect, interpretations and performance of this Agreement shall be governed by the laws of the PRC.

11.2 Consultation

The Parties shall first settle any disputes relating to interpretations or fulfillment of this Agreement through friendly consultation.

11.3 Arbitration

If any dispute cannot be settled in a way acceptable to the relevant Parties within 60 days after the first consultation, such dispute shall be submitted to Shanghai International Economic and Trade Arbitration Commission which locates in Shanghai for final settlement. Arbitration shall be carried out according to then effective arbitration rules which are incorporated into herein by reference. Arbitration award shall be final and binding upon the relevant Parties.

XII. Miscellaneous

12.1 Revision and amendment

According to applicable laws, any article of this Agreement can be revised, amended or supplemented in writing by the relevant Parties before the Closing Day (referred to as the “**Supplemental Agreement**”). If there are any conflicts between the Supplemental Agreement and this Agreement, the Supplemental Agreement shall prevail.

Unless provided otherwise in this Agreement, this Agreement does not exclude, limit or impact Parties’ rights to hold other Parties liable for breaching the contract under other agreements such Parties made prior to this Agreement.

12.2 Notice

All notices and other communications under this Agreement shall be made in writing. If such are delivered to a Party by hand or sent by facsimile (must be confirmed), or sent by registered letter, or sent by express mail service (such as express postal service) to the address given for such Parties below (or such other address for such relevant Parties as shall be specified by like notice to the notifying Party), it shall be deemed delivered or made.

Johnny, Cao Kai

Address: * ;

Tel.: *

Zip code: 518000

E-mail: *

Kent, Yang Zhiyi

Address: *;

Tel.: *

Zip code: 518000

E-mail: *

Justin, Long Chunyan

Address: * ;

Tel.: *

Zip code: 518000

E-mail: *

Ben, Meng Shuqi

Address: *;

Tel.: *

Zip code: 518000

E-mail: *

BURGEON MAX LIMITED

Address: *;

Tel.: *

Zip Code: 518000

E-mail: *

The symbol ‘ * ’ in this exhibit indicates places where information has been omitted pursuant to a request for confidential treatment and filed separately with the SEC.

CADGWITH INVESTMENTS LIMITED

Address: *;

Tel.: *

Zip Code: 518000

E-mail: *

DOUBLE MERITS HOLDINGS LIMITED

Address: *;

Tel.: *

Zip code: 518000

E-mail: *

EURO LOGISTICS LIMITED

Address: *;

Tel.: *

Zip code: 518000

E-mail: *

Beijing Gamease Age Digital Technology Co., Ltd.

Address: 2F, East Wing, Jingyan Hotel, No.29 Shi Jing Shan Road, Shi Jing Shan District, Beijing;

Fax No.: 010- 68870371

Tel.: *

Zip code: 100043

E-mail: alex@cyou-inc.com

Changyou.com Webgames (HK) Limited

Address: 2F, East Wing, Jingyan Hotel, No.29 Shi Jing Shan Road, Shi Jing Shan District, Beijing

Fax No.: 010- 68870371

Tel.: *

Zip code: 100043

E-mail: alex@cyou-inc.com

The symbol ‘ * ’ in this exhibit indicates places where information has been omitted pursuant to a request for confidential treatment and filed separately with the SEC.

7Road. Com Limited
Address: 7F, Main Building, Matsunichi Peak Tower, No. 9996, Shennan
Road, Nan Shan District, Shenzhen City, Guangdong Province;
Tel.: 0755-61669777
Zip code: 518057
E-mail: tim.luo@7road.com

Shenzhen 7Road Network Technology Co., Ltd.
Address: 7F, Main Building, Matsunichi Peak Tower, No. 9996, Shennan
Road, Nan Shan District, Shenzhen City, Guangdong Province;
Fax No.: 0755-86199356
Tel.: 0755-86199356
Zip code: 518057

Shenzhen 7Road Technology Co., Ltd.
Address: 8-9F, Main Building, Matsunichi Peak Tower, No. 9996, Shennan
Road, Nan Shan District, Shenzhen City, Guangdong Province;
Fax No.: 0755-86199356
Tel.: 0755-86199356
Zip code: 518057

12.3 Confidentiality

The Sellers or any of its Affiliates shall keep confidential any nonpublic information related to the 7Road Group (including but not limited to the 7Road Group and its business, finance, products, technologies, staff, and other subject matters) as well as all information related to the existence of this Agreement (or any other transaction agreements) or the subject matters hereof or thereof (referred to as “**Confidential Information**”). Lacking of the Purchasers’ prior review and written consent, the Sellers or any of its Affiliates shall not release any information, notice and declaration, or communicate with any news media in respect of Confidential Information. The range of such review includes but not limited to the timing and content of the release or public declaration or communication of such news. The Sellers shall not slander, damage, injure and make any negative comments on the 7Road Group and the Purchasers in any media.

The Purchasers shall not slander, damage, injure and make any negative comments on the Sellers in any media.

12.4 Effectiveness

This Agreement becomes effective immediately upon its proper execution by the Parties.

12.5 Counterparts

This Agreement is prepared in Chinese. This Agreement has 15 signed counterparts and each Party holds one. The remaining one counterpart is reserved to deliver to the competent industrial and commercial administration for alteration registration (if required). Each counterpart is with the same legal effect.

12.6 Severability

If any article of this Agreement is found to be as invalid or unenforceable after the execution of this Agreement or becomes invalid or unenforceable due to any legislative changes, the remaining parts remain unaffected.

12.7 Non-waiving of rights

Any Party failing to or delaying the exercise of any right or power under this Agreement shall not be deemed to waive such rights or powers. If any Party exercises any right or power independently or partially, it will not affect the exercise of such rights or powers in the future.

12.8 Assignment

Any Party shall not transfer part of or all rights, interests, responsibilities or obligations under this Agreement in any method without prior written consent by the other Party.

[Signature Page Follows]

(This is the signature page of the Acquisition Framework Agreement relating to the equity interests in 7Road. com Limited and Shenzhen 7Road Technology Co., Ltd. This Agreement is signed by BURGEON MAX LIMITED, CADGWITH INVESTMENTS LIMITED, DOUBLE MERITS HOLDINGS LIMITED, EURO LOGISTICS LIMITED, Johnny, Cao Kai, Kent, Yang Zhiyi, Justin, Long Chunyan, Ben, Meng Shuqi, Beijing Gamease Age Digital Technology Co., Ltd., Changyou.com Webgames (HK) Limited, 7Road.com Limited, Shenzhen 7Road Network Technology Co., Ltd., as well as Shenzhen 7Road Technology Co., Ltd.)

BURGEON MAX LIMITED

Authorized representative: _____

Signed by: _____

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CADGWITH INVESTMENTS LIMITED

Authorized representative: _____

Signed by: _____

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DOUBLE MERITS HOLDINGS LIMITED

Authorized representative: _____

Signed by: _____

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EURO LOGISTICS LIMITED

Authorized representative: _____

Signed by: _____

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Johnny, Cao Kai

Signed by: _____

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Kent, Yang Zhiyi

Signed by: _____

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Justin, Long Chunyan

Signed by: _____

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Ben, Meng Shuqi

Signed by: _____

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Beijing Gamease Age Digital Technology Co., Ltd.

Legal representative:

Signed by: _____

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Changyou.com Webgames (HK) Limited

Authorized representative: _____

Signed by: _____

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7Road. com Limited

Authorized representative: _____

Signed by: _____

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Shenzhen 7Road Network Technology Co., Ltd.

Legal representative: _____

Signed by: _____

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Shenzhen 7Road Technology Co., Ltd.

Legal representative: _____

Signed by: _____

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 8, 2013

/s/ Charles Zhang

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 8, 2013

/s/ Carol Yu

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, 2013 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, 2013 and results of operations of the Company for the three months ended June 30, 2013.

/s/ Charles Zhang

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

August 8, 2013

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, 2013 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, 2013 and results of operations of the Company for the three months ended June 30, 2013.

/s/ Carol Yu

Carol Yu, Co-President and

Chief Financial Officer

August 8, 2013