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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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	38,292,919

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)

	<u>As of</u>	
	<u>September 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012 (Revised)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,240,842	\$ 833,535
Restricted time deposits	314,836	116,140
Short-term investments	24,369	54,901
Investments in debt securities	81,327	79,548
Accounts receivable, net	153,284	98,398
Prepaid and other current assets	95,501	55,761
Total current assets	<u>1,910,159</u>	<u>1,238,283</u>
Fixed assets, net	546,228	178,951
Goodwill	164,461	159,215
Intangible assets, net	81,255	70,054
Restricted time deposits	60,151	130,699
Prepaid non-current assets	9,844	291,643
Other assets	16,249	13,792
Total assets	<u>\$ 2,788,347</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 \$11,067 and \$6,958, respectively, as of September 30, 2013 and December 31, 2012)	\$ 96,171	\$ 67,934
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of \$51,937 and \$53,034, respectively, as of September 30, 2013 and December 31, 2012)	209,463	117,029
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of \$64,765 and \$54,150, respectively, as of September 30, 2013 and December 31, 2012)	112,805	89,687
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$2,985 and \$4,940, respectively, as of September 30, 2013 and December 31, 2012)	76,108	61,722
Taxes payable (including taxes payable of consolidated VIEs without recourse to the Company of \$14,091 and \$14,191, respectively, as of September 30, 2013 and December 31, 2012)	56,672	33,897
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$3 and \$83, respectively, as of September 30, 2013 and December 31, 2012)	16,806	11,878
Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both September 30, 2013 and December 31, 2012)	354,002	113,000

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Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of \$132,111 and \$33,074, respectively, as of September 30, 2013 and December 31, 2012)	63,298	63,352
Contingent consideration (including contingent consideration of consolidated VIEs without recourse to the Company of nil as of both September 30, 2013 and December 31, 2012)	0	76
Total current liabilities	985,325	558,575
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of \$1,294 and nil, respectively, as of September 30, 2013 and December 31, 2012)	7,333	12,684
Long-term bank loans (including long-term bank loans of consolidated VIEs without recourse to the Company of nil as of both September 30, 2013 and December 31, 2012)	0	126,353
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$3,310 and \$3,846, respectively, as of September 30, 2013 and December 31, 2012)	7,350	7,998
Total long-term liabilities	14,683	147,035
Total liabilities	1,000,008	705,610
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; 38,293 shares and 38,089 shares, respectively, issued and outstanding as of September 30, 2013 and December 31, 2012)	44	44
Additional paid-in capital	594,812	378,311
Treasury stock (5,889 shares as of September 30, 2013 and December 31, 2012)	(143,858)	(143,858)
Accumulated other comprehensive income	105,768	79,542
Retained earnings	749,748	770,184
Total Sohu.com Inc. shareholders' equity	1,306,514	1,084,223
Noncontrolling interest	481,825	230,994
Total shareholders' equity	1,788,339	1,315,217
Total liabilities, mezzanine equity and shareholders' equity	\$ 2,788,347	\$ 2,082,637

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012 (Revised)
Revenues:				
Online advertising:				
Brand advertising	\$ 124,780	\$ 77,874	\$ 305,208	\$ 208,154
Search and others	52,305	35,284	134,528	85,684
Subtotal of online advertising revenues	<u>177,085</u>	<u>113,158</u>	<u>439,736</u>	<u>293,838</u>
Online games	161,494	150,263	497,210	412,187
Mobile	14,524	14,312	43,610	43,261
Others	15,220	7,645	34,267	18,423
Total revenues	<u>368,323</u>	<u>285,378</u>	<u>1,014,823</u>	<u>767,709</u>
Cost of revenues:				
Online advertising:				
Brand advertising	63,780	37,476	160,214	125,331
Search and others	26,785	19,736	72,075	49,056
Subtotal of cost of online advertising revenues	<u>90,565</u>	<u>57,212</u>	<u>232,289</u>	<u>174,387</u>
Online games	21,750	20,753	67,381	54,475
Mobile	8,108	9,474	26,342	28,535
Others	5,067	9,310	16,652	18,718
Total cost of revenues	<u>125,490</u>	<u>96,749</u>	<u>342,664</u>	<u>276,115</u>
Gross profit	<u>242,833</u>	<u>188,629</u>	<u>672,159</u>	<u>491,594</u>
Operating expenses:				
Product development	70,551	46,994	185,731	128,927
Sales and marketing	90,728	58,250	221,129	145,903
General and administrative	29,365	19,666	77,726	54,968
Impairment of intangible assets via acquisition of businesses	0	0	0	2,906
Total operating expenses	<u>190,644</u>	<u>124,910</u>	<u>484,586</u>	<u>332,704</u>
Operating profit	<u>52,189</u>	<u>63,719</u>	<u>187,573</u>	<u>158,890</u>
Other income /(expense)	1,533	(111)	5,596	3,320
Interest income	7,595	5,974	19,794	19,692
Exchange difference	(1,305)	667	(5,274)	69
Income before income tax expense	60,012	70,249	207,689	181,971
Income tax expense	18,923	18,727	55,192	55,881
Net income	41,089	51,522	152,497	126,090
Less: Net income attributable to the mezzanine-classified noncontrolling interest shareholders	0	4,495	17,780	6,701
Net income attributable to the noncontrolling interest shareholders	22,855	21,146	70,426	57,618
Dividend or deemed dividend to noncontrolling Sogou series A preferred shareholders	82,423	0	82,423	14,219
Net income /(loss) attributable to Sohu.com Inc.	<u>\$ (64,189)</u>	<u>\$ 25,881</u>	<u>\$ (18,132)</u>	<u>\$ 47,552</u>

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Net income	41,089	51,522	152,497	126,090
Other comprehensive income /(loss): Foreign currency translation adjustment, net of tax	8,249	(3,447)	33,481	(7,115)
Comprehensive income	49,338	48,075	185,978	118,975
Less: Comprehensive income attributable to the mezzanine-classified noncontrolling interest shareholders	0	4,495	17,780	6,701
Comprehensive income attributable to noncontrolling interest shareholders	24,749	20,540	77,681	56,510
Dividend or deemed dividend to noncontrolling Sogou series A preferred shareholders	82,423	0	82,423	14,219
Comprehensive income /(loss) attributable to Sohu.com Inc.	<u>\$ (57,834)</u>	<u>\$ 23,040</u>	<u>\$ 8,094</u>	<u>\$ 41,545</u>
Basic net income /(loss) per share attributable to Sohu.com Inc.	<u>\$ (1.68)</u>	<u>\$ 0.68</u>	<u>\$ (0.47)</u>	<u>\$ 1.25</u>
Shares used in computing basic net income /(loss) per share attributable to Sohu.com Inc.	<u>38,288</u>	<u>38,022</u>	<u>38,239</u>	<u>38,036</u>
Diluted net income /(loss) per share attributable to Sohu.com Inc.	<u>\$ (1.69)</u>	<u>\$ 0.63</u>	<u>\$ (0.53)</u>	<u>\$ 1.06</u>
Shares used in computing diluted net income /(loss) per share attributable to Sohu.com Inc.	<u>38,522</u>	<u>38,344</u>	<u>38,481</u>	<u>38,392</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>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net income	\$ 152,497	\$ 126,090
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	37,997	28,137
Share-based compensation expense	5,523	10,202
Amortization of intangible assets and purchased video content in prepaid expense	53,378	48,541
Impairment of purchased video content	0	15,101
Impairment of other intangible assets	1,504	7,522
Provision /(Reversal) for allowance for doubtful accounts	(134)	3,538
Excess tax benefits from share-based payment arrangements	0	(3,492)
Investment income from investments in debt securities	(4,143)	(4,098)
Others	(1,722)	89
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	(49,920)	(15,025)
Prepaid and other assets	(25,135)	(4,042)
Deferred tax	6,928	7,595
Accounts payable	11,921	22,487
Taxes payable	870	(5,010)
Accrued liabilities	58,493	19,165
Receipts in advance and deferred revenue	12,578	4,809
Other short-term liabilities	14,751	18,172
Net cash provided by operating activities	275,386	279,781
Cash flows from investing activities:		
Purchase of noncontrolling interest in 7Road	(76,010)	0
Purchase of fixed assets	(84,201)	(50,840)
Purchase of intangible and other assets	(61,738)	(44,048)
Cash paid related to restricted time deposits	(121,705)	(225,757)
Proceeds /purchase of short-term investments, net	32,856	(24,436)
Other acquisitions, net of cash acquired	0	(683)
Other cash proceeds /(payments) related to investing activities	1,783	(979)
Net cash used in investing activities	(309,015)	(346,743)
Cash flows from financing activities:		
Issuance of common stock	964	240
Issuance of Sogou series B preferred shares and Class B ordinary shares	475,472	0
Sohu's purchase of Sogou Series A Preferred Shares from Alibaba	0	(25,800)
Repurchase of common stock	0	(12,566)
Repurchase of Changyou American depositary shares ("ADSs")	(9,048)	0
Portion of Changyou dividend distributed to noncontrolling interest shareholders	0	(64,551)
Portion of Sogou special dividend distributed to holders of Series A Preferred Shares other than Sohu	(139,700)	0
Proceeds of loans from offshore banks	111,530	222,353

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Payment of contingent consideration	(19,736)	(13,806)
Excess tax benefits from share-based payment arrangements	0	3,492
Exercise of share-based awards in subsidiary	1,794	1,352
Proceeds received from early exercise of share-based awards in subsidiary	5,278	0
Other cash payments related to financing activities	(447)	(281)
Net cash provided by financing activities	426,107	110,433
Effect of exchange rate changes on cash and cash equivalents	14,829	(2,609)
Net increase in cash and cash equivalents	407,307	40,862
Cash and cash equivalents at beginning of period	833,535	732,607
Cash and cash equivalents at end of period	<u>\$ 1,240,842</u>	<u>\$ 773,469</u>
Supplemental cash flow disclosures:		
Barter transactions	\$ 380	\$ 451
Supplemental schedule of non-cash investing activity:		
Consideration payable for acquisition of Shi Ji Guang Su	24,398	0
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
Supplemental schedule of non-cash financing activity:		
Transaction expenses payable for issuance of Sogou Series B Preferred Shares and Class B Ordinary Shares	5,898	0

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

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

Nine Months Ended September 30, 2013
(In thousands)

	Sohu.com Inc. Shareholders' Equity						Noncontrolling Interest
	Total	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Retained Earnings	
Beginning balance	\$1,315,217	\$ 44	\$378,311	\$(143,858)	\$ 79,542	\$770,184	\$ 230,994
Issuance of common stock	964	0	964	0	0	0	0
Repurchase of Changyou ADSs	(9,048)	0	(6,116)	0	0	0	(2,932)
Share-based compensation expense	5,464	0	(836)	0	0	0	6,300
Purchase of noncontrolling interest in 7Road	2,257	0	1,517	0	0	0	740
Consideration received for the issuance of Sogou shares to Tencent, net of transaction expenses	470,662	0	146,798	0	0	0	323,864
Direct tax impact of Sogou-Tencent Transactions	(21,420)	0	(21,420)	0	0	0	0
Special dividend paid to noncontrolling Sogou Series A Preferred Shareholders	(139,700)	0	86,335	0	0	(82,423)	(143,612)
Repurchase /put options for Sogou Series A preferred shares	(6,048)	0	(3,744)	0	0	(2,304)	0
Settlement of share-based awards in subsidiary	1,793	0	13,003	0	0	0	(11,210)
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	134,717	0	0	0	0	64,291	70,426
Foreign currency translation adjustment, net of tax	33,481	0	0	0	26,226	0	7,255
Ending balance	<u>\$1,788,339</u>	<u>\$ 44</u>	<u>\$594,812</u>	<u>\$(143,858)</u>	<u>\$ 105,768</u>	<u>\$749,748</u>	<u>\$ 481,825</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 and revised)

Nine Months Ended September 30, 2012
(In thousands)

	<u>Sohu.com Inc. Shareholders' Equity</u>						<u>Noncontrolling Interest</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>	
Beginning balance	\$1,219,071	\$ 44	\$366,210	\$(131,292)	\$ 76,219	\$697,244	\$ 210,646
Issuance of common stock	240	0	240	0	0	0	0
Repurchase of common stock	(12,566)	0	0	(12,566)	0	0	0
Share-based compensation expense	10,202	0	4,555	0	0	0	5,647
Settlement of share-based awards in subsidiary	1,353	0	(7,477)	0	0	0	8,830
Portion of Changyou dividend attributable to noncontrolling interest shareholders	(64,551)	0	0	0	0	0	(64,551)
Sohu's purchase of Sogou Series A Preferred Shares from Alibaba	(25,800)	0	0	0	0	(14,219)	(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	3,492	0	3,492	0	0	0	0
Net income attributable to Sohu.com Inc. and noncontrolling interest shareholders	119,389	0	0	0	0	61,771	57,618
Foreign currency translation adjustment, net of tax	(7,115)	0	0	0	(6,007)	0	(1,108)
Ending balance	<u>\$1,250,669</u>	<u>\$ 44</u>	<u>\$374,145</u>	<u>\$(143,858)</u>	<u>\$ 70,212</u>	<u>\$744,796</u>	<u>\$ 205,330</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.

Brand Advertising Business

The brand advertising business offers advertisements on the Sohu Group’s Web properties to companies seeking to increase their brand awareness online.

Search and Others Business

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.

On September 16, 2013, pursuant to a Subscription Agreement entered into on that date by and among Sogou, THL A21 Limited, a British Virgin Islands company which is a wholly-owned subsidiary of Tencent Holdings Limited, a Cayman Islands company (Tencent Holdings Limited together with its subsidiaries, Tencent); Sohu’s wholly-owned subsidiary Sohu.com (Search) Limited, a Cayman Islands company (“Sohu Search”); and Photon Group Limited (“Photon”), the investment vehicle of the Sohu Group’s Chairman and Chief Executive Officer Dr. Charles Zhang, and a series of other contracts also entered into on that date between Sogou and Tencent, Tencent invested a net amount of \$448 million in cash in Sogou and transferred its Soso search-related businesses and certain other assets to Sogou (collectively, the “Sogou-Tencent Transactions,” or the “Transactions”).

On September 16, 2013, Sogou entered into (i) a Repurchase Option Agreement with Sohu Search, exercisable commencing March 16, 2014, granting to Sogou the right to purchase 24 million Series A Preferred Shares of Sogou held by Sohu Search for an aggregate purchase price of \$78.8 million; (ii) a Repurchase Option Agreement with Photon, also exercisable commencing March 16, 2014, granting to Sogou the right to purchase 6.4 million Series A Preferred Shares of Sogou held by Photon for an aggregate purchase price of \$21 million; and (iii) a Repurchase/Put Option Agreement with China Web Search (HK) Limited (“China Web”), an investment vehicle of Yunfeng Capital, granting to Sogou the right to purchase at any time from March 16, 2014 to July 31, 2014, and granting to China Web the right to put to Sogou at any time prior to July 31, 2014, 14.4 million Series A Preferred Shares of Sogou held by China Web for an aggregate purchase price of \$47.3 million. Sogou expects to exercise its rights under each of these agreements when they first become exercisable.

On September 16, 2013, Sogou, Sohu Search, Photon, Mr. Xiaochuan Wang, four other members of Sogou’s management (collectively, the “Sohu Parties”) and Tencent entered into a Shareholders Agreement (the “Shareholders Agreement”). Under the Shareholders Agreement, the parties have agreed to vote their Sogou voting shares in all elections of directors to elect three designees of Sohu Search and two designees of Tencent.

On September 17, 2013, Sogou paid a special dividend to the three holders of Series A Preferred Shares of Sogou in an aggregate amount of \$301 million, of which Sohu received \$161 million, Photon received \$43 million, and China Web received \$97 million.

Pursuant to the Shareholders Agreement, Sohu will hold approximately 53.6% of the total voting power for the election of the Board of Directors of Sogou, assuming that the repurchase options and the repurchase/put option are exercised, Tencent’s non-voting Class B Ordinary Shares are converted to voting shares, and all share options under the Sogou 2010 Share Incentive Plan and all share options under an arrangement providing for Sogou share-based awards to Sohu management and key employees (the “Management Share Option Arrangement”) are granted and exercised. As Sohu is the controlling shareholder of Sogou, Sohu consolidates Sogou in the Sohu Group’s consolidated financial statements, and recognizes noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu.

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Online Games

The online game business is conducted by Sohu's majority-owned subsidiary Changyou.com Limited ("Changyou"). Changyou completed its initial public offering ("IPO") on the NASDAQ Global Select Market under the symbol "CYOU" in 2009. As of September 30, 2013, Sohu held approximately 68% of the combined total of Changyou's outstanding ordinary shares and controlled approximately 83% of the total voting power in Changyou. As Changyou's controlling shareholder, Sohu consolidates 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.

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.

The accompanying unaudited condensed consolidated interim financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the nine months ended September 30, 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.

Historical accounting error regarding net income attributable to Sohu.com Inc. and basic and diluted net income per share attributable to Sohu.com Inc.

In the third quarter of 2013, as previously reported in an Amendment No. 1 to Current Report on Form 8-K/A that the Company filed with the SEC on September 20, 2013, management noted an accounting error in the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2012 regarding net income attributable to Sohu.com Inc. and the calculation of basic and diluted net income per share attributable to Sohu.com Inc. In June 2012, Sohu had purchased from Alibaba Investments Limited ("Alibaba"), a private investment subsidiary of Alibaba Group Holding Limited, 24.0 million Series A Preferred Shares of Sogou for cash consideration of \$25.8 million. Under ASC 260-10-S99-2, this transaction gave rise to a deemed dividend in the amount of \$14.2 million, which was the difference between the consideration Sohu paid to Alibaba and the carrying amount of these 24.0 million Series A Preferred Shares in the Group's consolidated financial statements. Accordingly, this amount of \$14.2 million should have been subtracted from net income to arrive at net income available to common shareholders in the Group's calculation of net income

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per share. This deemed dividend was inappropriately accounted for when calculating the net income attributable to the Group, resulting in an error in the calculation of basic and diluted net income per share attributable to Sohu.com Inc. There was a carry-forward effect of this accounting error to the net income attributable to Sohu.com Inc. and the net income per share calculation as reported for the nine months ended September 30, 2012 in the Company's Quarterly Report on Form 10-Q for the three months then ended (the "3rd Quarter 2012 10-Q"), and as reported for the year ended December 31, 2012 in the Company's Annual Report on Form 10-K for the year then ended. In addition, there was a carry-forward effect of the error to the classification of retained earnings and additional paid-in capital in the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2012, September 30, 2012, March 31, 2013 and June 30, 2013, and the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Management performed an assessment of the impact of this accounting error from both a quantitative and a qualitative perspective in accordance with the guidance contained in SAB 99, and concluded that the error was not material to the Group's relevant historical financial statements taken as a whole. Therefore, management concluded that the relevant affected historical financial statements could continue to be relied upon but would be revised to correct the error.

Correction of the error in the Group's consolidated statements of comprehensive income for the nine months ended September 30, 2012 included in this report resulted in a reduction of \$14.2 million in the amount reported for net income attributable to Sohu.com Inc. (from \$61.8 million to \$47.6 million) and a reduction of \$0.38 in the amounts reported for both basic net income per share and diluted net income per share attributable to Sohu.com Inc. (from \$1.63 to \$1.25 for basic net income per share, and from \$1.44 to \$1.06 for diluted net income per share), as compared to the corresponding amounts reported in the 3rd Quarter 2012 10-Q. Correction of the error in the Group's consolidated balance sheets as of December 31, 2012 included in this report resulted in an increase of \$14.2 million in additional paid-in capital (from \$364.1 million to \$378.3 million) and a reduction of \$14.2 million in retained earnings (from \$784.4 million to \$770.2 million), as compared to the corresponding amounts reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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 \$0.8 million and \$3.5 million, respectively, for revenues and \$0.3 million and \$1.3 million for costs, respectively, for the three and nine months ended September 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 (the "CODM"), or the decision making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is Sohu.com Inc.'s Chief Executive Officer. There are 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 September 30, 2013							Consolidated
	Brand Advertising, Mobile and Others			Brand Advertising, Mobile and Others	Sogou	Changyou	Eliminations	
	Brand Advertising	Mobile	Others					
Revenues (1)	\$ 110,008	\$ 14,524	\$ 7,036	\$ 131,568	\$ 56,940	\$ 183,068	\$ (3,253)	\$ 368,323
Segment cost of revenues	(60,512)	(8,108)	(71)	(68,691)	(26,687)	(30,093)	109	(125,362)
Segment gross profit/(loss)	\$ 49,496	\$ 6,416	\$ 6,965	62,877	30,253	152,975	(3,144)	242,961
SBC (2) in cost of revenues				(59)	(24)	(45)	0	(128)
Gross profit				62,818	30,229	152,930	(3,144)	242,833

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Operating expenses:					
Product development	(21,758)	(17,700)	(30,181)	0	(69,639)
Sales and marketing	(54,748)	(10,673)	(28,092)	3,144	(90,369)
General and administrative	(11,742)	(2,952)	(12,872)	0	(27,566)
SBC (2) in operating expenses	(542)	(5,389)	(286)	3,147	(3,070)
Total operating expenses	(88,790)	(36,714)	(71,431)	6,291	(190,644)
Operating profit /(loss)	(25,972)	(6,485)	81,499	3,147	52,189
Other income /(expense) (3)	162,372	(27)	381	(161,193)	1,533
Interest income	1,637	231	5,727	0	7,595
Exchange difference	(170)	49	(1,184)	0	(1,305)
Income /(loss) before income tax expense	137,867	(6,232)	86,423	(158,046)	60,012
Income tax expense	(5,328)	0	(13,595)	0	(18,923)
Net income	<u>\$ 132,539</u>	<u>\$ (6,232)</u>	<u>\$ 72,828</u>	<u>\$ (158,046)</u>	<u>\$ 41,089</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.

Note (3): The elimination for other income is primarily for the portion paid to Sohu of a special dividend paid by Sogou to holders of its Series A Preferred Shares.

	Three Months Ended September 30, 2012							Consolidated
	Brand Advertising, Mobile and Others			Brand Advertising, Mobile and Others	Sogou	Changyou	Eliminations	
	Brand Advertising	Mobile	Others					
Revenues (1)	\$ 68,217	\$ 14,312	\$ 2,935	\$ 85,464	\$ 37,295	\$ 165,782	\$ (3,163)	\$ 285,378
Segment cost of revenues	(35,620)	(9,474)	(841)	(45,935)	(19,715)	(30,908)	41	(96,517)
Segment gross profit /(loss)	<u>\$ 32,597</u>	<u>\$ 4,838</u>	<u>\$ 2,094</u>	39,529	17,580	134,874	(3,122)	188,861
SBC (2) in cost of revenues				(133)	(21)	(78)	0	(232)
Gross profit				<u>39,396</u>	<u>17,559</u>	<u>134,796</u>	<u>(3,122)</u>	<u>188,629</u>
Operating expenses:								
Product development				(16,916)	(11,034)	(17,728)	0	(45,678)
Sales and marketing				(36,744)	(7,693)	(16,353)	3,122	(57,668)
General and administrative				(8,842)	(1,524)	(7,587)	0	(17,953)
SBC (2) in operating expenses				(1,030)	(1,931)	(715)	65	(3,611)
Total operating expenses				<u>(63,532)</u>	<u>(22,182)</u>	<u>(42,383)</u>	<u>3,187</u>	<u>(124,910)</u>
Operating profit /(loss)				(24,136)	(4,623)	92,413	65	63,719
Other income /(expense) (3)				137,940	61	(1,787)	(136,325)	(111)
Interest income				2,297	73	3,604	0	5,974

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Exchange difference	88	31	548	0	667
Income /(loss) before income tax expense	<u>116,189</u>	<u>(4,458)</u>	<u>94,778</u>	<u>(136,260)</u>	<u>70,249</u>
Income tax expense	<u>(1,373)</u>	<u>0</u>	<u>(17,354)</u>	<u>0</u>	<u>(18,727)</u>
Net income	<u>\$ 114,816</u>	<u>\$ (4,458)</u>	<u>\$ 77,424</u>	<u>\$ (136,260)</u>	<u>\$ 51,522</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.

Note (3): The elimination for other income is primarily for the portion paid to Sohu of a special one-time cash dividend paid by Changyou to its shareholders.

Nine Months Ended September 30, 2013								
Brand Advertising, Mobile and Others								
	Brand Advertising	Mobile	Others	Brand Advertising, Mobile and Others	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 277,974	\$ 43,610	\$ 14,190	\$ 335,774	\$ 146,144	\$ 543,024	\$ (10,119)	\$ 1,014,823
Segment cost of revenues	<u>(151,105)</u>	<u>(26,342)</u>	<u>(2,180)</u>	<u>(179,627)</u>	<u>(71,972)</u>	<u>(91,098)</u>	<u>329</u>	<u>(342,368)</u>
Segment gross profit /(loss)	<u>\$ 126,869</u>	<u>\$ 17,268</u>	<u>\$ 12,010</u>	156,147	74,172	451,926	(9,790)	672,455
SBC (2) in cost of revenues				(197)	(29)	(70)	0	(296)
Gross profit				<u>155,950</u>	<u>74,143</u>	<u>451,856</u>	<u>(9,790)</u>	<u>672,159</u>
Operating expenses:								
Product development				(62,566)	(45,131)	(76,364)	0	(184,061)
Sales and marketing				(142,581)	(28,047)	(59,559)	9,790	(220,397)
General and administrative				(29,192)	(7,020)	(38,689)	0	(74,901)
SBC (2) in operating expenses				(1,701)	(5,800)	(875)	3,149	(5,227)
Total operating expenses				<u>(236,040)</u>	<u>(85,998)</u>	<u>(175,487)</u>	<u>12,939</u>	<u>(484,586)</u>
Operating profit /(loss)				<u>(80,090)</u>	<u>(11,855)</u>	<u>276,369</u>	<u>3,149</u>	<u>187,573</u>
Other income /(expense) (3)				164,533	59	2,197	(161,193)	5,596
Interest income				5,275	837	13,682	0	19,794
Exchange difference				(752)	196	(4,718)	0	(5,274)
Income /(loss) before income tax expense				<u>88,966</u>	<u>(10,763)</u>	<u>287,530</u>	<u>(158,044)</u>	<u>207,689</u>
Income tax expense				<u>(11,079)</u>	<u>(6)</u>	<u>(44,107)</u>	<u>0</u>	<u>(55,192)</u>
Net income				<u>\$ 77,887</u>	<u>\$ (10,769)</u>	<u>\$ 243,423</u>	<u>\$ (158,044)</u>	<u>\$ 152,497</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.

Note (3): The elimination for other income is primarily for the portion paid to Sohu of a special dividend paid by Sogou to holders of its Series A Preferred Shares.

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Nine Months Ended September 30, 2012

	Brand Advertising, Mobile and Others			Brand Advertising, Mobile and Others			Eliminations	Consolidated
	Brand Advertising	Mobile	Others	Brand Advertising, Mobile and Others	Sogou	Changyou		
Revenues (1)	\$ 188,117	\$ 43,261	\$ 6,210	\$ 237,588	\$ 90,470	\$ 449,888	\$ (10,237)	\$ 767,709
Segment cost of revenues	(120,915)	(28,535)	(1,770)	(151,220)	(48,992)	(75,700)	223	(275,689)
Segment gross profit /(loss)	<u>\$ 67,202</u>	<u>\$ 14,726</u>	<u>\$ 4,440</u>	86,368	41,478	374,188	(10,014)	492,020
SBC (2) in cost of revenues				(117)	(64)	(245)	0	(426)
Gross profit				86,251	41,414	373,943	(10,014)	491,594
Operating expenses:								
Product development				(46,400)	(27,911)	(50,597)	0	(124,908)
Sales and marketing				(95,522)	(18,277)	(40,505)	10,014	(144,290)
General and administrative				(23,543)	(4,235)	(23,046)	0	(50,824)
Impairment of intangible assets via acquisitions of businesses				0	0	(2,906)	0	(2,906)
SBC (2) in operating expenses				(3,538)	(3,519)	(2,784)	65	(9,776)
Total operating expenses				<u>(169,003)</u>	<u>(53,942)</u>	<u>(119,838)</u>	<u>10,079</u>	<u>(332,704)</u>
Operating profit /(loss)				(82,752)	(12,528)	254,105	65	158,890
Other income /(expense) (3)				140,495	60	(910)	(136,325)	3,320
Interest income				8,812	261	10,619	0	19,692
Exchange difference				188	58	(177)	0	69
Income /(loss) before income tax expense				66,743	(12,149)	263,637	(136,260)	181,971
Income tax expense				(6,187)	0	(49,694)	0	(55,881)
Net income				<u>\$ 60,556</u>	<u>\$ (12,149)</u>	<u>\$ 213,943</u>	<u>\$ (136,260)</u>	<u>\$ 126,090</u>

Note (1): The intercompany 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.

Note (3): The elimination for other income is primarily for the portion paid to Sohu of a special one-time cash dividend paid by Changyou to its shareholders.

As of September 30, 2013

	Brand Advertising, Mobile and Others			Brand Advertising, Mobile and Others			Eliminations	Consolidated
	Brand Advertising, Mobile and Others	Sogou	Changyou	Brand Advertising, Mobile and Others	Sogou	Changyou		
Cash and cash equivalents	\$ 502,934	\$ 236,640	\$ 501,268	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,240,842
Accounts receivable, net	110,745	12,880	29,963	(304)				153,284
Fixed assets, net	249,956	61,965	234,307	0				546,228
Total assets (1)	\$ 1,213,104	\$ 333,464	\$ 1,400,763	\$ (158,984)				\$ 2,788,347

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 September 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 September 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 September 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 noncontrolling shareholders. 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) Scheme 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) Scheme 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.

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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 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.

For 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 and nine months ended September 30, 2013, compensation expense of \$0.4 million and \$2.9 million, respectively, was recognized in the consolidated statements of comprehensive income. In the third quarter of 2013, 7Road paid \$1.6 million in cash bonuses under Scheme I.

For Scheme II, the incremental compensation expense varies depending on 7Road's financial performance. In the third quarter of 2013, 7Road granted to an additional 48 7Road employees the right to receive an annual cash bonus under Scheme II with the same terms as described above. For both the three and the nine months ended September 30, 2013, compensation expense of \$0.3 million was recognized in the consolidated statements of comprehensive income.

Share-based compensation expense recognition

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Share-based compensation expense				
Cost of revenues	\$ 128	\$ 232	\$ 296	\$ 426
Product development expenses	912	1,316	1,670	4,019
Sales and marketing expenses	359	582	732	1,613
General and administrative expenses	1,799	1,713	2,825	4,144
	<u>\$ 3,198</u>	<u>\$ 3,843</u>	<u>\$5,523</u>	<u>\$10,202</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Share-based compensation expense				
For Sohu share-based awards	\$ 730	\$ 1,440	\$2,313	\$ 4,621
For Changyou share-based awards	312	750	884	2,769
For Sogou share-based awards	2,156	1,653	2,326	2,812
	<u>\$ 3,198</u>	<u>\$ 3,843</u>	<u>\$5,523</u>	<u>\$10,202</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, as well as the repurchase options and the repurchase/put option with respect to Sogou Series A Preferred Shares.

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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.

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

Items	As of September 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	\$ 72,888	\$ 0	\$ 72,888	\$ 0
Restricted time deposits	374,987	0	374,987	0
Short-term investments	24,369	0	24,369	0
Investments in debt securities	81,327	0	0	81,327
Total Assets	\$ 553,571	\$ 0	\$ 472,244	\$ 81,327
Put option recognized as other short-term liability	\$ 6,192	\$ 0	\$ 0	\$ 6,192

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 September 30, 2013 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Debt Securities	Put Option
Beginning balance at December 31, 2012	\$ 79,548	\$ 0
Transactions:		
Initial fair value of recognition	0	6,048
Fair value change	0	144
Currency translation adjustment	1,779	0
Ending balance at September 30, 2013	<u>\$ 81,327</u>	<u>\$ 6,192</u>

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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, funding the acquisition of outstanding noncontrolling interests in 7Road and providing capital to support its share repurchase program. 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.

As of September 30, 2013, the total amount of the bank loans was \$354 million, of which \$252 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 nine months ended September 30, 2013, interest income from the restricted time deposits securing the loans was \$2.9 million and \$8.8 million, respectively, and interest expense on the bank loans was \$2.3 million and \$6.4 million, respectively. All of outstanding balances of the bank loans are repayable in 2014.

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 were 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 September 30, 2013, the Sohu Group's investments in financial instruments were mainly held by 7Road and totaled approximately \$24.4 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 nine months ended September 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 \$2.3 million, respectively. For the three and nine months ended September 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 \$0.4 million and \$1.0 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, March 2013 and September 2013, Sohu extended the maturity of the security for sequential six-month periods, to March 2012, September 2012, March 2013, September 2013 and March 2014, 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 nine months ended September 30, 2013, interest income generated from this debt security amounted to \$1.40 million and \$4.14 million, respectively. For the three and nine months ended September 30, 2012, interest income generated from this debt security amounted to \$1.37 million and \$4.10 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 nine months ended September 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.

Repurchase Options and Repurchase/Put Option for Sogou Series A Preferred Shares

As discussed in Note 1 - The Company and Basis of Presentation, in September 2013 Sogou entered into Repurchase Option Agreements with Sohu Search and Photon, and a Repurchase/Put Option Agreement with China Web with respect to Series A Preferred Shares of Sogou held by them. Sogou expects to exercise its rights to purchase Series A Preferred Shares under each of these agreements when they first become exercisable by Sogou on March 16, 2014.

The repurchase options and the repurchase/put option for Sogou Series A Preferred Shares were initially recognized in the Sohu Group’s consolidated balance sheets at fair value when the agreements were signed. The fair value of the put option will be revaluated quarterly until the option is exercised or expires unexercised. Subsequent changes in the fair values of the equity classified repurchase options will not be recognized until the options are exercised. Management determined the fair values of these options determined using the binomial model, with a discount for lack of marketability, given that the repurchase options and the repurchase/put option were not publicly traded at the time of grant, and made the determination with the assistance of a qualified professional appraiser using management’s estimates and assumptions. We classify the valuation techniques that use these inputs as Level 3 of fair value measurements.

As of September 30, 2013, the Sohu Group recognized \$6.2 million for the put option in other short-term liabilities. Any changes in the fair value of the put option were recognized in other income /(expense). For the three months ended September 30, 2013, fair value change of \$144,000 for the put option was recognized in other expense in the consolidated statement of comprehensive income. As of September 30, 2013, the Sohu Group also recognized \$3.7 million for the repurchase options in additional paid-in capital in equity, based on the fair value of the repurchase options on September 16, 2013.

Other financial instruments

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

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.

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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 September 30, 2013, all of the \$164 million purchase price had been paid and recognized as construction-in-process under fixed assets in the Sohu Group's consolidated balance sheets, as the construction 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					
Acquisition of Soso search-related businesses from Tencent	0	0	2,405	0	2,405
Foreign currency translation adjustment	6	0	48	2,787	2,841
Balance as of September 30, 2013	<u>\$ 22,253</u>	<u>\$ 0</u>	<u>\$4,500</u>	<u>\$137,708</u>	<u>\$164,461</u>
Balance as of September 30, 2013					
Goodwill	\$ 42,099	\$ 15,942	\$4,500	\$142,909	\$205,450
Accumulated impairment losses	(19,846)	(15,942)	0	(5,201)	(40,989)
	<u>\$ 22,253</u>	<u>\$ 0</u>	<u>\$4,500</u>	<u>\$137,708</u>	<u>\$164,461</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 nine months ended September 30, 2013, nor did the Group have any significant unrecognized uncertain tax positions for the three and nine months ended September 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.

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Within the Sohu Group, five enterprises, consisting of 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 September 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 September 30, 2013, Changyou accrued deferred tax liabilities in the amount of \$16.8 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. Commencing August 1, 2013 the Pilot Program was expanded to all regions in the 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%.

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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.

Other Provisions for Taxes

As described above, the Group is subject to various taxes in different jurisdictions, primarily the US and the PRC. Management reviews regularly the adequacy of the provisions for taxes as they relate to the income and transactions of the Group. In reviewing various equity transactions among companies in the Group, management determined that the transactions may result in additional tax obligations under relevant tax rules. As a result of certain equity transactions that took place during the quarter ended September 30, 2013, the Group has recognized directly to equity a provision for tax in the amount of \$21.4 million as of September 30, 2013.

8. Commitments and Contingencies

Unconditional Obligations

As of September 30, 2013, the Sohu Group had commitments for bandwidth purchases in the amount of \$44 million, commitments for operating leases in the amount of \$28 million, commitments for video content purchases in the amount of \$22 million and commitments for other content and service purchases in the amount of \$16 million.

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.

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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 September 30, 2013, the aggregate amount of these loans was \$18.6 million.

Under its contractual arrangements with the consolidated VIEs, the Sohu Group has the power to direct activities of the VIEs, and can have assets transferred freely out of the VIEs without any restrictions. Therefore, the Group considers that there is no asset of a consolidated VIE that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves of the VIEs. As of September 30, 2013, the registered capital and PRC statutory reserves of the consolidated VIEs totaled \$34.8 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.

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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 September 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 September 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 September 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 September 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 September 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 September 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 September 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.

Tianjin Jinhu

Tianjin Jinhu Culture Development Co., Ltd. (“Tianjin Jinhu”) was incorporated in 2011 and is engaged in advertising services. As of September 30, 2013, the registered capital of Tianjin Jinhu 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 September 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.

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Shi Ji Guang Su

Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (“Shi Ji Guang Su”), which is engaged in Soso search-related businesses, was acquired in September 2013 as part of the Sogou-Tencent Transactions. As of September 30, 2013, the registered capital of Shi Ji Guang Su was \$3.2 million and Sogou Information held a 100% interest in this entity.

For the Online Game Business

Gamease

Gamease was incorporated in 2007. As of September 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 September 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 September 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 September 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 September 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 September 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	
	September 30, 2013	December 31, 2012
ASSETS:		
Cash and cash equivalents	\$ 46,631	\$ 62,638
Short-term investments	10,337	54,106
Accounts receivable, net	97,941	80,671
Other current assets	43,806	30,322
Intercompany receivables due from subsidiaries	260,930	109,728
Total current assets	<u>459,645</u>	<u>337,465</u>
Goodwill	128,949	126,516
Prepaid and other non-current assets	54,242	57,793
Total assets	<u>\$ 642,836</u>	<u>\$ 521,774</u>
LIABILITIES:		
Accounts payable	\$ 11,067	\$ 6,958
Accrued and other short-term liabilities	201,127	105,322
Receipts in advance and deferred revenue	64,765	54,150
Intercompany payables due to subsidiaries	30,962	36,446
Total current liabilities	<u>307,921</u>	<u>202,876</u>
Other long-term liabilities	4,604	3,846
Total liabilities	<u>\$ 312,525</u>	<u>\$ 206,722</u>

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net revenue	\$ 259,362	\$ 233,802	\$ 759,948	\$ 639,947
Net income	<u>\$ 5,425</u>	<u>\$ 38,439</u>	<u>\$ 198,853</u>	<u>\$ 92,100</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.

	Nine months ended September 30,	
	2013	2012
Cash flows of Sohu's VIEs		
Net cash provided by /(used in) operating activities	\$ 6,312	\$ (16,930)
Net cash (used in) /provided by investing activities	(574)	143
Net cash used in financing activities	<u>\$ 0</u>	<u>\$ (474)</u>
Cash flows of Changyou's VIEs		
Net cash provided by operating activities	\$ 29,225	\$ 41,843
Net cash used in investing activities	(51,434)	(31,558)
Net cash used in financing activities	<u>\$ 0</u>	<u>\$ (13,105)</u>

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.

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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.

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.

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Equity interest purchase right agreement among 7Road Technology, Shenzhen 7Road and Gamease, which is Shenzhen 7Road's sole shareholder. Under this agreement, 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 Gamease all or any part of its shares in Shenzhen 7Road at a nominal purchase price. This agreement 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 agreement among 7Road Technology, Shenzhen 7Road and Gamease. Under this agreement, Gamease agreed to pledge to 7Road Technology its equity interests in Shenzhen 7Road to secure the performance of its obligations and Shenzhen 7Road's obligations under the various VIE-related agreements. If Gamease or Shenzhen 7Road breaches its obligations under any VIE-related agreements, 7Road Technology is entitled to exercise its rights as the beneficiary under the Equity Interest Pledge Agreement. This agreement terminates only after all of the obligations of Gamease and of Shenzhen 7Road under the various VIE-related agreements are no longer in effect.

Business operation agreement among 7Road Technology, Shenzhen 7Road and Gamease. This agreement grants to 7Road Technology the right to control the actions of Shenzhen 7Road and the actions of Gamease in its capacity as the shareholder of Shenzhen 7Road. 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.

Power of attorney executed by Gamease in favor of 7Road Technology. This power of attorney gives 7Road Technology the exclusive right to appoint designees to act on behalf of Gamease in connection with all actions to be taken by Shenzhen 7Road requiring shareholder approval.

Business Arrangements between Subsidiaries and consolidated VIEs

Business cooperation agreement between Sohu Era and Sohu Internet. Pursuant to this agreement Sohu Era provides technical consultation, content purchasing and other related services to Sohu Internet, in exchange for a percentage of the gross income of Sohu Internet. The agreement between Sohu Era and Sohu Internet has a term of one year, renewable at the request of Sohu Era.

Business cooperation agreement between Sogou Tech and Sogou Information. Pursuant to this agreement, Sogou Information provides the Internet information service to Sogou Tech's customers, in exchange for a certain amount of service fee, with a term of 10 years, renewable at 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.

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.

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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.

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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. As of September 30, 2013, Changyou had repurchased 305,800 of its ADSs, representing 611,600 ordinary shares under the share repurchase program at an aggregate cost of approximately \$9.1 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 nine months ended September 30, 2013, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was \$0.5 million and \$1.7 million, respectively. For the three and nine months ended September 30, 2012, total share-based compensation expense recognized for awards under the Sohu 2000 Stock Incentive Plan was \$1.2 million and \$3.9 million, respectively.

i) Summary of share option activity

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

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding at January 1, 2013	242	\$ 19.36	1.91	\$ 6,781
Exercised	(63)	15.06		
Forfeited or expired	(1)	9.07		
Outstanding at September 30, 2013	178	20.91	1.43	10,336
Vested at September 30, 2013	178	20.91	1.43	10,336
Exercisable at September 30, 2013	178	20.91	1.43	10,336

Note (1): The aggregate intrinsic value in the preceding table represents the difference between Sohu's closing stock price of \$78.83 on September 30, 2013 and the exercise price of share options. The total intrinsic value of share options exercised for the nine months ended September 30, 2013 was \$2.3 million.

No options have been granted under Sohu's 2000 Stock Incentive Plan since 2006. For the three and nine months ended September 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 nine months ended September 30, 2013, total cash received from the exercise of share options amounted to \$0.1 million and \$1.0 million, respectively. For the three and nine months ended September 30, 2012, total cash received from the exercise of share options amounted to \$101,000 and \$240,000, respectively.

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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 nine months ended September 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	(4)	61.27
Unvested at September 30, 2013	124	61.27
Expected to vest thereafter	93	61.27

For the three and nine months ended September 30, 2013, total share-based compensation expense recognized for restricted share units was \$0.5 million and \$1.7 million, respectively. For the three and nine months ended September 30, 2012, total share-based compensation expense recognized for restricted share units was \$1.2 million and \$3.9 million, respectively.

As of September 30, 2013, there was \$0.6 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 0.29 years. The total fair value on their respective vesting dates of restricted share units vested during the three and nine months ended September 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 nine months ended September 30, 2012 was nil 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 September 30, 2013, 1,455,422 shares were available for grant under the Sohu 2010 Stock Incentive Plan.

A summary of restricted share unit activity under the Sohu 2010 Stock Incentive Plan as of and for the nine months ended September 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	(7)	48.75
Forfeited	(2)	70.88
Unvested at September 30, 2013	10	55.84
Expected to vest thereafter	9	54.41

For the three and nine months ended September 30, 2013, total share-based compensation expense recognized for restricted share units was \$0.2 million and \$0.6 million, respectively. For the three and nine months ended September 30, 2012, total share-based compensation expense recognized for restricted share units was \$0.2 million and \$0.6 million, respectively.

As of September 30, 2013, there was \$0.3 million of unrecognized compensation expense related to unvested restricted share units. The expense is expected to be recognized over a weighted average period of 0.4 years. The total fair value on their respective vesting dates of restricted share units vested during both the three months and the nine months ended September 30, 2013 was \$0.4 million. The total fair value on their respective vesting dates of restricted share units vested during both the three months and the nine months ended September 30, 2012 was \$0.25 million.

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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 September 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 nine months ended September 30, 2013, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was \$0.3 million and \$0.9 million, respectively. For the three and nine months ended September 30, 2012, total share-based compensation expense recognized for awards under the Changyou 2008 Share Incentive Plan was \$0.8 million and \$2.8 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 IPO, there was no share-based compensation expense recognized for either the three months or the nine months ended September 30, 2013, as these awards were fully vested in 2012. For the three and nine months ended September 30, 2012, total share-based compensation expense recognized for the above restricted ordinary shares was nil and \$72,000, respectively.

For Changyou restricted share units granted to certain of its other employees before Changyou's IPO, there was no share-based compensation expense recognized for the three months ended September 30, 2013, as these awards were fully vested in the first half of 2013. The fair value of these restricted share units as of the grant date was determined based on Changyou's offering price for its IPO, which was \$8.00 per ordinary share.

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

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

For the three and nine months ended September 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 nine months ended September 30, 2012, total share-based compensation expense recognized for the above restricted share units was \$50,000 and \$0.2 million, respectively.

As of September 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 other employees on their respective vesting dates during the three and nine months ended September 30, 2013 was nil and \$1.1 million, respectively. The total fair value of restricted share units vested to Changyou's other employees on their respective vesting dates during the three and nine months ended September 30, 2012 was nil and \$1.2 million, respectively.

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

As of September 30, 2013, in addition to the share-based awards granted before Changyou's IPO, 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 nine months ended September 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	(320)	12.70
Forfeited	(12)	12.88
Unvested at September 30, 2013	230	14.35
Expected to vest thereafter	213	14.38

For the three and nine months ended September 30, 2013, total share-based compensation expense recognized for the above restricted share units was \$0.3 million and \$1.2 million, respectively. For the three and nine months ended September 30, 2012, total share-based compensation expense recognized for the above restricted share units was \$0.7 million and \$2.5 million, respectively.

As of September 30, 2013, there was \$1.0 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 0.87 years. The total fair value of these restricted share units vested during the three and nine months ended September 30, 2013 was nil and \$4.7 million, respectively. The total fair value of these restricted share units vested during the three and nine months ended September 30, 2012 was nil 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 September 30, 2013, Sogou had issued options for the purchase of 35,436,375 ordinary shares.

Of the 35,436,375 issued share options, 23,206,375 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 September 30, 2013, performance targets had been set for 15,790,400 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 September 30, 2013, 10,040,650 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.

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.

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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 nine months ended September 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 amended Sogou 2010 Stock Incentive Plan as of and for the nine months ended September 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	17,076	0.264	
Exercised	(5,339)	0.001	
Forfeited or expired	(96)	0.001	
Outstanding at September 30, 2013	17,986	0.251	8.90
Vested at September 30, 2013 and expected to vest thereafter	5,641		
Exercisable at September 30, 2013	6		

For the three and nine months ended September 30, 2013, total share-based compensation expense recognized for share options under the amended Sogou 2010 Share Incentive Plan was \$1.7 million and \$1.8 million, respectively. For the three and nine months ended September 30, 2012, total share-based compensation expense recognized for share options under the Sogou 2010 Share Incentive Plan was \$1.4 million and \$2.4 million, respectively.

As of September 30, 2013, there was \$2.0 million of unrecognized compensation expense related to the unvested share options. The expense is expected to be recognized over a weighted average period of 0.27 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%~2.87%
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

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 September 30, 2013 and 6.0% for Sogou employees' share options granted as of September 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%.

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Share-based Awards to Sohu management

Under the Management Share Option 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 September 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 September 30, 2013, performance targets had been set for 6,585,750 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 September 30, 2013, 5,105,500 share options had become vested and exercisable because both the service period and the performance requirements had been met, and all 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 nine months ended September 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 nine months ended September 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	4,638	0.625	
Exercised	(2,936)	0.625	
Forfeited or expired	0		
Outstanding at September 30, 2013	3,880	0.625	8.74
Vested at September 30, 2013 and expected to vest thereafter	1,475		
Exercisable at September 30, 2013	0		

For the three months and the nine months ended September 30, 2013, total share-based compensation expense recognized for share options under the Management Share Option Arrangement was \$0.5 million and \$0.5 million, respectively. For the three months and the nine months ended September 30, 2012, total share-based compensation expense recognized for share options under the Management Share Option Arrangement was \$200,000 and \$382,000, respectively.

As of September 30, 2013, there was \$0.3 million of unrecognized compensation expense related to the unvested share options. The expense is expected to be recognized over a weighted average period of 0.25 years.

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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:

Granted to Employees	2013
Average risk-free interest rate	2.10%~2.87%
Exercise multiple	2~3
Expected forfeiture rate (Post-vesting)	0%-8%
Weighted average expected option life	10
Volatility rate	47.00%-48.00%
Dividend yield	0%
Fair value	0.27-0.38

Option Modification

In the first and second quarter of 2013, a portion of the share options granted under the amended Sogou 2010 Share Incentive Plan and the Management Share Option Arrangement were exercised early, 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.

As of September 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 Management Share Option Arrangement, or a total of 20,470,000 share options, were exercised early.

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

See Note 3 - Share-Based Compensation Expense.

11. Business Transactions

Sogou Transactions

On October 22, 2010, Sogou issued and sold 24.0 million, 14.4 million and 38.4 million, respectively, of its newly-issued Series A Preferred Shares to Alibaba, China Web and Photon for \$15 million, \$9 million, and \$24 million, respectively. On June 29, 2012, Sohu purchased Alibaba's 24.0 million Sogou Series A Preferred Shares for a purchase price of \$25.8 million.

On September 16, 2013, Sogou entered into a series of agreements with Tencent, Sohu Search and Photon pursuant to which Sogou issued Series B Preferred Shares and Class B Ordinary Shares to Tencent for a net amount of \$448 million in cash and Tencent transferred its Soso search-related businesses and certain other assets to Sogou. Also on that date, Sogou entered into Repurchase Option Agreements with Sohu Search and Photon, and a Repurchase/Put Option Agreement with China Web, with respect to all of the Series A Preferred Shares of Sogou held by Sohu Search and China Web, and a portion of the Series A Preferred Shares of Sogou held by Photon. On September 17, 2013, Sogou paid a special dividend to the three holders of Series A Preferred Shares of Sogou in an aggregate amount of \$301 million, of which Sohu received \$161 million, Photon received \$43 million, and China Web received \$97 million. See Note 1 - The Company and Basis of Presentation.

As of September 30, 2013, Sogou had outstanding a combined total of 370,771,658 ordinary shares and preferred shares, consisting of shares held as follows:

- (i) Sohu: 134,107,750 Class A Ordinary Shares and 24,000,000 Series A Preferred Shares. Of the Class A Ordinary Shares, 6,907,750 shares are subject to purchase under options held by Sohu management and key employees. All of the 24,000,000 Series A Preferred Shares are subject to repurchase by Sogou commencing March 16, 2014;
- (ii) Photon: 38,400,000 Series A Preferred Shares, of which 6,400,000 are subject to repurchase by Sogou commencing March 16, 2014;
- (iii) China Web: 14,400,000 Series A Preferred Shares, all of which are subject to China Web's right to put the shares to Sogou at any time prior to July 31, 2014 and all of which are subject to repurchase by Sogou at any time from March 16, 2014 to July 31, 2014;

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- (iv) Tencent: 79,368,421 non-voting Class B Ordinary Shares and 65,431,579 Series B Preferred Shares; and
- (v) Certain employees of Sogou and Sohu: 15,063,908 Class A Ordinary Shares.

As Sohu is Sogou's controlling shareholder, Sohu consolidates Sogou in the Sohu Group's consolidated financial statements, and recognizes noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu.

As of September 30, 2013, a portion of Sogou options granted to Sogou and Sohu top management and key employees were still unvested and were setttable 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 15 - Net Income per Share.

Terms of Preferred Shares of Sogou

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

Dividend Rights

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

Liquidation Rights

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

Redemption Rights

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

Conversion Rights

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

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Voting Rights

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

Other Rights

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

Terms of Class B Ordinary Shares of Sogou

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

7Road Transactions

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

12. Business Combination

On September 16, 2013, as part of the Sogou-Tencent Transactions, Sogou acquired from certain subsidiaries of Tencent, Shi Ji Guang Su, which conducts Soso search-related businesses, and other related assets, for cash consideration of approximately \$27.6 million (the "Shi Ji Guang Su Acquisition"). As of September 30, 2013, Sogou had paid \$3.3 million of the consideration. The remaining amount will be settled prior to March 16, 2014. The Sohu Group began to consolidate Shi Ji Guang Su's financial statements commencing September 16, 2013.

On the acquisition date, the allocation of the consideration of the assets acquired and liabilities assumed based on their fair value was as follows (in thousands):

	<u>As of September 16, 2013</u>
Cash	\$ 3,249
Receivables	7,967
Fixed assets acquired	21,964
Goodwill	2,405
Identifiable intangible assets acquired	5,686
Liabilities	(13,653)
Total	<u>\$ 27,618</u>

The fixed assets acquired in the Shi Ji Guang Su Acquisition consist primarily of computer equipment and hardware. The identifiable intangible assets acquired in the Shi Ji Guang Su Acquisition consist primarily of developed technologies, trademarks and domain names. These identifiable intangible assets were valued using the income approach. The excess of the purchase price over identifiable tangible and intangible assets acquired and identifiable liabilities assumed was recorded as goodwill, which is not amortized but is tested for impairment.

Based on an assessment of the acquired company's financial performance, the acquired company is not considered material to the Sohu Group. Thus the Sohu Group's management concluded that the presentation of pro forma financial information with respect to the results of operations of the Sohu Group including the acquired company is not necessary.

13. Mezzanine Equity

Mezzanine Equity consists of noncontrolling interest in 7Road and a put option pursuant to which the former noncontrolling shareholders would have had the right to put their ordinary shares in 7Road to Changyou at a pre-determined price if 7Road had 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.

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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. 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 nine months ended September 30, 2013, accretion charges of nil and \$17.8 million, respectively, compared to \$4.5 million and \$6.7 million, respectively, for the three and nine months ended September 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.

14. 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 "Changyou noncontrolling shareholders"), Changyou's net income attributable to the Changyou noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income, based on their share of the economic interest in Changyou. Changyou's cumulative results of operations attributable to the Changyou noncontrolling shareholders, along with changes in shareholders' equity, adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and adjustment for changes in Sohu'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 "Sogou noncontrolling shareholders"), Sogou's net income /(loss) attributable to the Sogou noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income. Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity /(deficit) and adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and the Sogou noncontrolling shareholders' original investments in Series A Preferred Shares, Series B Preferred Shares and Class B Ordinary 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 Sogou noncontrolling shareholders in the Preferred Shares of Sogou (the "Terms of Preferred Shares of Sogou"), the terms of Sogou's restructuring in 2010, Sohu's purchase of Sogou Series A Preferred Shares from Alibaba, and the terms of Class B Ordinary Shares of Sogou.

By virtue of these terms, as Sogou has been losing money since its restructuring in 2010, the net losses have been and will be allocated in the following order:

- (i) net losses were allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares until their basis in Sogou decreased to zero;
- (ii) additional net losses were allocated to holders of Sogou Series A Preferred Shares until their basis in Sogou decreased to zero;
- (iii) additional net losses will be allocated to the holder of Sogou Series B Preferred Shares until its basis in Sogou decreases to zero; and
- (iv) further net losses will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

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

- (i) net income will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou until their basis in Sogou increases to zero;
- (ii) additional net income will be allocated to the holder of Sogou Series B Preferred Shares to bring its basis back;
- (iii) additional net income will be allocated to holders of Sogou Series A Preferred Shares to bring their basis back;
- (iv) further net income will be allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares to bring their basis back; and
- (v) further net income will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

Noncontrolling Interest in the Consolidated Balance Sheets

As of September 30, 2013 and December 31, 2012, noncontrolling interest in the consolidated balance sheets was \$481.8 million and \$231.0 million, respectively.

	As of	
	September 30, 2013 (in thousands)	December 31, 2012 (in thousands)
Changyou	\$ 279,065	\$ 203,995
Sogou	200,314	24,645
Others	2,446	2,354
Total	<u>\$ 481,825</u>	<u>\$ 230,994</u>

Noncontrolling Interest of Changyou

As of September 30, 2013 and December 31, 2012, noncontrolling interest of Changyou of \$279.1 million and \$204.0 million, respectively, was recognized in the Sohu Group's consolidated balance sheets, representing a 32% economic interest in Changyou's net assets held by shareholders other than Sohu and reflecting the reclassification of Changyou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest.

Noncontrolling Interest of Sogou

As of September 30, 2013 and December 31, 2012, noncontrolling interest of Sogou of \$200.3 million and \$24.6 million, respectively, was recognized in the Sohu Group's consolidated balance sheets, representing Sogou's cumulative results of operations attributable to shareholders other than Sohu, Sogou's share-based compensation expense, and the investments of shareholders other than Sohu in Series A Preferred Shares, Series B Preferred Shares and Class B Ordinary Shares of Sogou, and the adjustment of the investment basis of shareholders other than Sohu due to the special dividend paid to holders of Series A Preferred Shares of Sogou on September 17, 2013. The increase from December 31, 2012 to September 30, 2013 was mainly due to the net impact of Tencent's investment in Sogou on September 16, 2013, and the adjustment of the investment basis of shareholders other than Sohu due to the special dividend paid to holders of Series A Preferred Shares of Sogou on September 17, 2013.

Noncontrolling Interest in the Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2013, net income attributable to noncontrolling interests in the consolidated statements of comprehensive income was \$22.9 million and \$70.4 million, respectively, compared with \$21.1 million and \$57.6 million, respectively, for the three months and nine months ended September 30, 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Changyou	\$23,596	\$23,410	\$73,486	\$65,425
Sogou	(1,143)	(2,232)	(3,109)	(7,780)
Others	402	(32)	49	(27)
Total	<u>\$22,855</u>	<u>\$21,146</u>	<u>\$70,426</u>	<u>\$57,618</u>

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Noncontrolling Interest of Changyou

For the three months ended September 30, 2013 and 2012, \$23.6 million and \$23.4 million, respectively, in net income attributable to the noncontrolling interest of Changyou was recognized in the Sohu Group's consolidated statements of comprehensive income, representing a 32% economic interest in Changyou attributable to shareholders other than Sohu.

Noncontrolling Interest of Sogou

For the three months ended September 30, 2013 and 2012, \$1.1 million and \$2.2 million, respectively, in net loss attributable to the noncontrolling interest of Sogou was recognized in the Sohu Group's consolidated statements of comprehensive income, representing Sogou's net loss attributable to shareholders other than Sohu.

15. 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 third quarter of 2013, the percentage used for the calculation of basic and dilutive net income per share was 67.6% and 67.2%, 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 67.6% to 67.2%. 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, Series A Preferred Shares, Series B 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 Terms of Preferred Shares of Sogou, the terms of Sogou's restructuring in 2010, Sohu's purchase of Sogou Series A Preferred Shares from Alibaba, and the terms of Class B Ordinary Shares of Sogou, 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 Terms of Preferred Shares of Sogou, the terms of Sogou's restructuring in 2010, Sohu's purchase of Sogou Series A Preferred Shares from Alibaba, and the terms of Class B Ordinary Shares of Sogou. For the third quarter of 2013, in the calculation of the Sohu Group's diluted net income per share, assuming a dilutive effect, the percentage of 63% 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.

As discussed in Note 1 - The Company and Basis of Presentation, on June 29, 2012, Sohu purchased 24 million Sogou Series A Preferred Shares from Alibaba, and this transaction gave rise to a deemed dividend amounting to \$14.2 million, which was the difference between the price Sohu paid to Alibaba for the Series A Preferred Shares and the carrying amount of these 24.0 million Series A Preferred Shares in the Group's consolidated financial statements. This deemed dividend has been subtracted from the Net income attributable to Sohu.com Inc. for the nine months ended September 30, 2012 in the table below, to revise the historical inappropriate treatment when calculating the basic and diluted net income per share attributable to Sohu.com Inc.

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The portion of the special dividend paid by Sogou on September 17, 2013 to holders of Series A Preferred Shares of Sogou other than Sohu, in the amount of \$139.7 million, is a payment to noncontrolling preferred shareholders, of which Sohu, as a holder of ordinary shares of Sogou, is deemed to have contributed \$82.4 million. This \$82.4 million has also been subtracted from the Net income attributable to Sohu.com Inc. for the three months and nine months ended September 30, 2013 to arrive at net income available to ordinary shareholders in the calculation of net income per share attributable to Sohu.com Inc.

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator:				
Net income /(loss) attributable to Sohu.com Inc., basic (after subtracting the dividend or deemed dividend to noncontrolling Sogou series A preferred shareholders)	<u>\$(64,189)</u>	<u>\$25,881</u>	<u>\$(18,132)</u>	<u>\$47,552</u>
Effect of dilutive securities:				
Incremental dilution from Changyou	(297)	(510)	(723)	(1,945)
Incremental dilution from Sogou	<u>(535)</u>	<u>(1,356)</u>	<u>(1,673)</u>	<u>(4,813)</u>
Net income /(loss) attributable to Sohu.com Inc., diluted	<u>\$(65,021)</u>	<u>\$24,015</u>	<u>\$(20,528)</u>	<u>\$40,794</u>
Denominator:				
Weighted average basic common shares outstanding	38,288	38,022	38,239	38,036
Effect of dilutive securities:				
Share options and restricted share units	<u>234</u>	<u>322</u>	<u>242</u>	<u>356</u>
Weighted average diluted common shares outstanding	<u>38,522</u>	<u>38,344</u>	<u>38,481</u>	<u>38,392</u>
Basic net income /(loss) per share attributable to Sohu.com Inc.	<u>\$ (1.68)</u>	<u>\$ 0.68</u>	<u>\$ (0.47)</u>	<u>\$ 1.25</u>
Diluted net income /(loss) per share attributable to Sohu.com Inc.	<u>\$ (1.69)</u>	<u>\$ 0.63</u>	<u>\$ (0.53)</u>	<u>\$ 1.06</u>

16. Subsequent Events

From October 1, 2013 to November 8, 2013, Changyou repurchased an additional 284,700 of its ADSs, representing 569,400 ordinary shares, at an aggregate cost of approximately \$8.2 million, under Changyou's ADSs repurchase program discussed above.

17. 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 (“Sohu Search”), Sogou Inc. (“Sogou”), 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”), Focus Investment Holding Limited (“Focus Investment”), Sohu Focus Limited (“Sohu Focus”), Sohu Focus (HK) Limited (“Focus 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”), Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (“Shi Ji Guang Su”) 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 Gamestar (HK) Limited (“Changyou HK Gamestar”), Changyou.com (US) LLC. (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 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 and services 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. For the first three quarters of 2013, the online video advertising revenues grew 123% compared with the same period of 2012. We expect to continue to operate the online video business as a significant unit within Sohu’s brand advertising business.

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. On September 16, 2013, we entered into a strategic cooperation with Tencent Holdings Limited, a Cayman Islands company (Tencent Holdings Limited together with its subsidiaries, “Tencent”), whereby Tencent invested in our search subsidiary Sogou. We believe that this strategic cooperation will reinforce and strengthen Sogou as a leader in the large and fast-growing China market for search and Internet services, particularly for the mobile platform. We expect our search and others business to sustain healthy revenue growth through the remainder of 2013.

Our online game business achieved our expectations in the third quarter, as we continue to release content updates in the form of expansion packs for our games on a regular basis, which we believe helps to extend the popularity of our games in China. We developed and currently operate three popular games in China, including Tian Long Ba Bu (“TLBB”), DDTank and Wartune (also known as “Shen Qu”). In addition, we own the leading game information portal in China, 17173.com, which is one of the major online mediums for advertising games in China.

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.

Search and Others Business

Our search and others business, provided by our search subsidiary 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 and 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 completed an initial public offering on the NASDAQ Global Select Market under the symbol “CYOU” in 2009. As Changyou’s controlling shareholder, Sohu consolidates 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.

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 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, which are two popular Web games in China. For the third quarter of 2013, more than 67% 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 third quarter of 2013, Changyou’s online game revenues were \$161.5 million, which represented 44% of our total revenues. Net income contributed by Changyou for the quarter was \$72.8 million, which represented 177% 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”), Ring Back Tone (“RBT”), mobile video, mobile games, and interactive voice response (“IVR”). A majority of the content is purchased from third party content providers.

Others Business

Our others business revenues are generated primarily 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 Transactions

Sogou Transactions

On October 22, 2010, Sogou issued and 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 Capital, and Photon Group Limited (“Photon”), the investment vehicle of Sohu Group’s Chairman and Chief Executive Officer Dr. Charles Zhang, for \$15 million, \$9 million, and \$24 million, respectively. On June 29, 2012, Sohu purchased Alibaba’s 24.0 million Sogou Series A Preferred Shares for a purchase price of \$25.8 million.

On September 16, 2013, pursuant to a Subscription Agreement entered into on that date by and among Sogou, Tencent, Sohu Search, and Photon, and a series of other contracts also entered into on that date between Sogou and Tencent, Tencent invested a net amount of \$448 million in cash in Sogou and transferred its Soso search-related businesses and certain other assets to Sogou (collectively, the “Sogou-Tencent Transactions,” or the “Transactions”).

On September 16, 2013, Sogou entered into (i) a Repurchase Option Agreement with Sohu Search, exercisable commencing March 16, 2014, granting to Sogou the right to purchase 24 million Series A Preferred Shares of Sogou held by Sohu Search for an aggregate purchase price of \$78.8 million; (ii) a Repurchase Option Agreement with Photon, also exercisable commencing March 16, 2014, granting to Sogou the right to purchase 6.4 million Series A Preferred Shares of Sogou held by Photon for an aggregate purchase price of \$21 million; and (iii) a Repurchase/Put Option Agreement with China Web, granting to Sogou the right to purchase at any time from March 16, 2014 to July 31, 2014, and granting to China Web the right to put to Sogou at any time prior to July 31, 2014, 14.4 million Series A Preferred Shares of Sogou held by China Web for an aggregate purchase price of \$47.3 million. Sogou expects to exercise its rights under each of these agreements when they first become exercisable.

On September 16, 2013, Sogou, Sohu Search, Photon, Mr. Xiaochuan Wang, four other members of Sogou’s management (collectively, the “Sohu Parties”) and Tencent entered into a Shareholders Agreement (the “Shareholders Agreement”). Under the Shareholders Agreement, the parties have agreed to vote their Sogou voting shares in all elections of directors to elect three designees of Sohu Search and two designees of Tencent.

On September 17, 2013, Sogou paid a special dividend to the three holders of Series A Preferred Shares of Sogou in an aggregate amount of \$301 million, of which Sohu received \$161 million, Photon received \$43 million, and China Web received \$97 million.

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Pursuant to the Shareholders Agreement, Sohu will hold approximately 53.6% of the total voting power for the election of the Board of Directors of Sogou, assuming that the repurchase options and the repurchase/put option are exercised, Tencent's non-voting Class B Ordinary Shares are converted to voting shares, and all share options under the Sogou 2010 Share Incentive Plan and all share options under an arrangement providing for Sogou share-based awards to Sohu management and key employees (the "Management Share Option Arrangement") are granted and exercised. As Sohu is the controlling shareholder of Sogou, we consolidate Sogou in the Sohu Group's consolidated financial statements, and recognize noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu.

7Road Transactions

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

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 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 our consolidated VIEs, management made evaluations of the relationships between us and our VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, we control the shareholders' voting interests in these VIEs. As a result of such evaluation, management concluded that we are the primary beneficiary of our consolidated VIEs. 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

As of September 30, 2013, Sohu held approximately 68% of the combined total of Changyou's outstanding ordinary shares and controlled approximately 83% of the total voting power in Changyou. As Sohu is Changyou's controlling shareholder, we consolidate Changyou in our consolidated financial statements, but recognize noncontrolling interest reflecting the economic interest in Changyou held by shareholders other than Sohu.

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

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Noncontrolling Interest for Sogou

As Sohu is Sogou's controlling shareholder, we consolidate Sogou in the Sohu Group's consolidated financial statements, and recognize noncontrolling interest reflecting economic interests in Sogou held by shareholders other than Sohu. To reflect the economic interest in Sogou held by shareholders other than Sohu (the "Sogou noncontrolling shareholders"), Sogou's net income /(loss) attributable to the Sogou noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income. Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity /(deficit) and adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and the Sogou noncontrolling shareholders' original investments in Series A Preferred Shares, Series B Preferred Shares and Class B Ordinary 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 Sogou noncontrolling shareholders in the Preferred Shares of Sogou (the "Terms of Preferred Shares of Sogou"), the terms of Sogou's restructuring in 2010, Sohu's purchase of Sogou Series A Preferred Shares from Alibaba, and the terms of Class B Ordinary Shares of Sogou.

By virtue of these terms, as Sogou has been losing money since its restructuring in 2010, the net losses have been and will be allocated in the following order:

- (i) net losses were allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares until their basis in Sogou decreased to zero;
- (ii) additional net losses were allocated to holders of Sogou Series A Preferred Shares until their basis in Sogou decreased to zero;
- (iii) additional net losses will be allocated to the holder of Sogou Series B Preferred Shares until its basis in Sogou decreases to zero; and
- (iv) further net losses will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

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

- (i) net income will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou until their basis in Sogou increases to zero;
- (ii) additional net income will be allocated to the holder of Sogou Series B Preferred Shares to bring its basis back;
- (iii) additional net income will be allocated to holders of Sogou Series A Preferred Shares to bring their basis back;
- (iv) further net income will be allocated to holders of Sogou Class A Ordinary Shares and the holder of Sogou Class B Ordinary Shares to bring their basis back; and
- (v) further net income will be allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

Segment Reporting

Our Group's segments are business units that offer different services and are reviewed separately by the chief operating decision maker (the "CODM"), or the decision making group, in deciding how to allocate resources and in assessing performance. The CODM is Sohu.com Inc.'s Chief Executive Officer. 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.

Historical accounting error regarding net income attributable to Sohu.com Inc. and basic and diluted net income per share attributable to Sohu.com Inc.

In the third quarter of 2013, as previously reported in an Amendment No. 1 to Current Report on Form 8-K/A that we filed with the SEC on September 20, 2013, management noted an accounting error in the Group's Quarterly Report on Form 10-Q for the three months ended June 30, 2012 regarding net income attributable to Sohu.com Inc. and the calculation of basic and diluted net income per share attributable to Sohu.com Inc. In June 2012, Sohu had purchased from Alibaba 24.0 million Series A Preferred Shares of Sogou for cash consideration of \$25.8 million. Under ASC 260-10-S99-2, this transaction gave rise to a deemed dividend in the amount of \$14.2 million, which was the difference between the consideration Sohu paid to Alibaba and the carrying amount of these 24.0 million Series A Preferred Shares in the Group's consolidated financial statements. Accordingly, this amount of \$14.2 million should have been subtracted from net income to arrive at net income available to common shareholders in the Group's calculation of net income per share. This deemed dividend was inappropriately accounted for when calculating the net income attributable to the Group, resulting in an error in the calculation of basic and diluted net income per share attributable to Sohu.com Inc. There was a carry-forward effect of this accounting error to the net income attributable to Sohu.com Inc. and the net income per share calculation as reported for the nine months ended September 30, 2012 in the Group's Quarterly Report on Form 10-Q for the three months then ended (the "3rd Quarter 2012 10-Q"), and as reported for the year ended December 31, 2012 in the Group's Annual Report on Form 10-K for the year then ended. In addition, there was a carry-forward effect of the error to the classification of retained earnings and additional paid-in capital in the Group's Quarterly Report on Form 10-Q for the three months ended June 30, 2012, September 30, 2012, March 31, 2013 and June 30, 2013, and the Group's Annual Report on Form 10-K for the year ended December 31, 2012.

Management performed an assessment of the impact of this accounting error from both a quantitative and a qualitative perspective in accordance with the guidance contained in SAB 99, and concluded that the error was not material to the Group's relevant historical financial statements taken as a whole. Therefore, management concluded that the relevant affected historical financial statements could continue to be relied upon but would be revised to correct the error.

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 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. Before September 1, 2012, 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. Commencing August 1, 2013, the Pilot Program expanded to all regions in the 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.

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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.

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

Search and 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. 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.

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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 revenues over the service period during which 7Road is obligated to provide services to the game players to enable them to consume their virtual items.

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.

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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, RBT, mobile video, mobile games, 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 September 30, 2013, 70% 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.

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 ordinary shares granted is fully recognized in the quarter during which the ordinary shares are granted. For share options, restricted shares and restricted share units granted with respect to Sohu shares and Changyou shares, compensation expense is recognized on an accelerated basis over the requisite service period. For share options granted with respect to Sogou shares, compensation expense is recognized on a straight-line basis over the estimated period during which the service period requirement and performance target will be met. 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 September 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 September 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 September 30, 2013.

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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 noncontrolling shareholders. 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) Scheme 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) Scheme 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.

For 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 and nine months ended September 30, 2013, compensation expense of \$0.4 million and \$2.9 million, respectively, was recognized in the consolidated statements of comprehensive income. In the third quarter of 2013, 7Road paid \$1.6 million in cash bonuses under Scheme I.

For Scheme II, the incremental compensation expense varies depending on 7Road’s financial performance. In the third quarter of 2013, 7Road granted to an additional 48 7Road employees the right to receive an annual cash bonus under Scheme II with the same terms as described above. For both the three and the nine months ended September 30, 2013, compensation expense of \$0.3 million was recognized in the consolidated statements of comprehensive income.

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”).

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 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 September 30, 2013, Changyou had accrued deferred tax liabilities in the amount of \$16.8 million for withholding taxes associated with this distribution plan.

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. Commencing August 1, 2013 the Pilot Program expanded to all regions in the 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.

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Other Provisions for Taxes

As described above, the Group is subject to various taxes in different jurisdictions, primarily the US and the PRC. Management reviews regularly the adequacy of the provisions for taxes as they relate to the income and transactions of the Group. In reviewing various equity transactions among companies in the Group, management determined that the transactions may result in additional tax obligations under relevant tax rules. As a result of certain equity transactions that took place during the quarter ended September 30, 2013, the Group has recognized directly to equity a provision for tax in the amount of \$21.4 million as of September 30, 2013.

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. As discussed above, the Sohu Group recognized \$21.4 million tax payable as of September 30, 2013 for an uncertain tax position arising from certain equity transactions that may be considered by PRC tax authorities to have resulted in taxable income.

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.
- (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, Series A Preferred Shares, Series B 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 Terms of Preferred Shares of Sogou, the terms of Sogou's restructuring in 2010, Sohu's purchase of Sogou Series A Preferred Shares from Alibaba, and the terms of Class B Ordinary Shares of Sogou, 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, as well as the repurchase options and the repurchase/put option with respect to Sogou Series A Preferred Shares.

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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 September 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 were 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.

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 simplicity.

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.

Repurchase Options and Repurchase/Put Option for Sogou Series A Preferred Shares

As discussed in “Business Transactions-Sogou Transactions,” in September 2013 Sogou entered into Repurchase Option Agreements with Sohu Search and Photon, and a Repurchase/Put Option Agreement with China Web with respect to Series A Preferred Shares of Sogou held by them. Sogou expects to exercise its rights to purchase its Series A Preferred Shares under each of these agreements when they first become exercisable by Sogou on March 16, 2014.

The repurchase options and the repurchase/put option for Sogou Series A Preferred Shares were initially recognized in the Sohu Group’s consolidated balance sheets at fair value when the agreements were signed. The fair value of the put option will be revaluated quarterly until the option is exercised or expires unexercised. Subsequent changes in the fair values of the equity classified repurchase options will not be recognized until the options are exercised. Management determined the fair values of these options determined using the binominal model, with a discount for lack of marketability, given that the repurchase options and the repurchase/put option were not publicly traded at the time of grant, and made the determination with the assistance of a qualified professional appraiser using management’s estimates and assumptions. We classify the valuation techniques that use these inputs as Level 3 of fair value measurements.

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 September 30, 2013, all of the \$164 million purchase price had been paid and recognized as construction-in-process under fixed assets in our consolidated balance sheets, as the construction 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.

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.

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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. 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

Our Mezzanine Equity consists of noncontrolling interest in 7Road and a put option pursuant to which the former noncontrolling shareholders would have had the right to put their ordinary shares in 7Road to Changyou at a pre-determined price if 7Road had 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.

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For the three and nine months ended September 30, 2013, accretion charges of nil and \$17.8 million, respectively, compared to \$4.5 million and \$6.7 million, respectively, for the three and nine months ended September 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 NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012****Historical accounting error regarding net income attributable to Sohu.com Inc. and basic and diluted net income per share attributable to Sohu.com Inc.**

As discussed above under the heading “Critical Accounting Policies and Management Estimates”, in the third quarter of 2013, management noted an accounting error in the Group’s Quarterly Report on Form 10-Q for the three months ended June 30, 2012 regarding net income attributable to Sohu.com Inc. and the calculation of basic and diluted net income per share attributable to Sohu.com Inc. After considering both the quantitative and qualitative aspects, the management concluded that the error was not material to the Group’s relevant historical financial statements taken as a whole so there was no need to restate the Group’s affected historical financial statements, but that relevant corrected financial information and related disclosures would be presented in this report and the Group’s future filings as applicable. Correction of the error in the Group’s consolidated statements of comprehensive income for the nine months ended September 30, 2012 included in this report resulted in a reduction of \$14.2 million in the amount reported for net income attributable to Sohu.com Inc. (from \$61.8 million to \$47.6 million) and a reduction of \$0.38 in the amounts reported for both basic net income per share and diluted net income per share attributable to Sohu.com Inc. (from \$1.63 to \$1.25 for basic net income per share, and from \$1.44 to \$1.06 for diluted net income per share), as compared to the corresponding amounts reported in the Group’s 3rd Quarter 2012 10-Q. Correction of the error in the Group’s consolidated balance sheets as of December 31, 2012 included in this report resulted in an increase of \$14.2 million in additional paid-in capital (from \$364.1 million to \$378.3 million) and a reduction of \$14.2 million in retained earnings (from \$784.4 million to \$770.2 million), as compared to the corresponding amounts reported in the Group’s Annual Report on Form 10-K for the year ended December 31, 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 \$0.8 million and \$3.5 million, respectively, for revenues and \$0.3 million and \$1.3 million for costs, respectively, for the three and nine months ended September 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 September 30,			Nine Months Ended September 30,		
	2013	2012	2013 vs 2012	2013	2012	2013 vs 2012
Revenues						
Online advertising:						
Brand advertising	\$ 124,780	\$ 77,874	\$ 46,906	\$ 305,208	\$ 208,154	\$ 97,054
Search and others	52,305	35,284	17,021	134,528	85,684	48,844
Subtotal of online advertising revenues	177,085	113,158	63,927	439,736	293,838	145,898
Online game	161,494	150,263	11,231	497,210	412,187	85,023
Mobile	14,524	14,312	212	43,610	43,261	349
Others	15,220	7,645	7,575	34,267	18,423	15,844
Total revenues	\$368,323	\$285,378	\$82,945	\$1,014,823	\$767,709	\$247,114

Total revenues were \$368.3 million and \$1,014.8 million, respectively, for the three and nine months ended September 30, 2013, compared to \$285.4 million and \$767.7 million, respectively, for the corresponding periods in 2012. The increase in total revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$82.9 million, and the increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$247.1 million. The increases were mainly attributable to increases in online advertising revenues and online game revenues.

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Online Advertising Revenues

Online advertising revenues were \$177.1 million and \$439.7 million, respectively, for the three and nine months ended September 30, 2013, compared to \$113.2 million and \$293.8 million, respectively, for the corresponding periods in 2012. The increase in online advertising revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$63.9 million, and the increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$145.9 million. The increases were mainly attributable to increases in brand advertising revenues and search and others revenues.

Brand Advertising Revenues

Brand advertising revenues were \$124.8 million and \$305.2 million, respectively, for the three and nine months ended September 30, 2013, compared to \$77.9 million and \$208.2 million, respectively, for the corresponding periods in 2012. The increase in brand advertising revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$46.9 million, and the increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$97.1 million. The increases were mainly attributable to increases in revenues from the online video business and the real estate business.

We expect brand advertising revenues to be flat in the fourth quarter of 2013, compared to the third quarter of 2013.

Search and Others Revenues

Search and others revenues were \$52.3 million and \$134.5 million, respectively, for the three and nine months ended September 30, 2013, compared to \$35.3 million and \$85.7 million, respectively, for the corresponding periods in 2012. The increase in search and others revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$17.0 million, and the increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$48.8 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 improved monetization of traffic.

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

Online Game Revenues

Online game revenues were \$161.5 million and \$497.2 million, respectively, for the three and nine months ended September 30, 2013, compared to \$150.3 million and \$412.2 million, respectively, for the corresponding periods in 2012. The increase in online game revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$11.2 million, and the increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$85.0 million. The increases were mainly due to the growth in revenue of Wartune, TLBB, and the new MMOG Dou Po Cang Qiong.

We expect online game revenues to increase in the fourth quarter of 2013, compared to the third quarter of 2013.

Mobile Revenues

Mobile revenues were \$14.5 million and \$43.6 million, respectively, for the three and nine months ended September 30, 2013, compared to \$14.3 million and \$43.3 million, respectively, for the corresponding periods in 2012. The increase in mobile revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$0.2 million, and the increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$0.3 million.

We expect mobile revenues to be decrease in the fourth quarter of 2013, compared to the third quarter of 2013.

Others Revenues

Revenues for other services were \$15.2 million and \$34.3 million, respectively, for the three and nine months ended September 30, 2013, compared to \$7.6 million and \$18.4 million, respectively, for the corresponding periods in 2012. The increase in others revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$7.6 million, and the increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$15.8 million. The increases were mainly due to increased revenues from IVAS and the cinema advertisement business.

[Table of Contents](#)**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 September 30,			Nine Months Ended September 30,						
	2013	2012	2013 vs 2012	2013	2012	2013 vs 2012				
Cost of revenues:										
Online advertising:										
Brand advertising	\$ 63,780	51%	\$37,476	39%	\$26,304	\$160,214	47%	\$125,331	45%	\$34,883
Search and others	26,785	21%	19,736	20%	7,049	72,075	21%	49,056	18%	23,019
Subtotal of cost of online advertising revenues	90,565	72%	57,212	59%	33,353	232,289	68%	174,387	63%	57,902
Online game	21,750	17%	20,753	21%	997	67,381	20%	54,475	20%	12,906
Mobile	8,108	7%	9,474	10%	(1,366)	26,342	8%	28,535	10%	(2,193)
Others	5,067	4%	9,310	10%	(4,243)	16,652	4%	18,718	7%	(2,066)
Total cost of revenues	<u>\$125,490</u>	100%	<u>\$96,749</u>	100%	<u>\$28,741</u>	<u>\$342,664</u>	100%	<u>\$276,115</u>	100%	<u>\$66,549</u>

Total cost of revenues was \$125.5 million and \$342.7 million, respectively, for the three and nine months ended September 30, 2013, compared to \$96.7 million and \$276.1 million, respectively, for the corresponding periods in 2012. The increase in cost of revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$28.7 million, and the increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$66.5 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 \$90.6 million and \$232.3 million, respectively, for the three and nine months ended September 30, 2013, compared to \$57.2 million and \$174.4 million, respectively, for the corresponding periods in 2012. The increase in cost of online advertising revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$33.4 million, and the increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$57.9 million. The increases were mainly attributable to increases in cost of brand advertising revenues.

Cost of Brand Advertising Revenues

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

Cost of brand advertising revenues was \$63.8 million and \$160.2 million, respectively, for the three and nine months ended September 30, 2013, compared to \$37.5 million and \$125.3 million, respectively, for the corresponding periods in 2012.

The increase in cost of brand advertising revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$26.3 million. The increase mainly consisted of a \$12.3 million increase in amortization of content and license costs, an \$8.1 million increase in bandwidth leasing costs, a \$3.3 million increase in salary and benefits expenses, and a \$1.1 million increase in depreciation expenses.

The increase in cost of brand advertising revenues from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$34.9 million. The increase mainly consisted of a \$21.2 million increase in amortization of content and license costs, an \$11.1 million increase in salary and benefits expenses, an \$11.0 million increase in bandwidth leasing costs, and a \$3.1 million increase in depreciation expenses, 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 48%, respectively, for the three and nine months ended September 30, 2013, as compared to 52% and 40%, respectively, for the corresponding periods in 2012. The decrease in our brand advertising gross margin from 52% to 49% for the three months ended September 30, 2013 was mainly due to increase in content and bandwidth costs. The increase from 40% to 48% for the nine months ended September 30, 2013 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.

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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 \$26.8 million and \$72.1 million, respectively, for the three and nine months ended September 30, 2013, compared to \$19.7 million and \$49.1 million, respectively, for the corresponding periods in 2012.

The increase in cost of search and others revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$7.0 million. The increase mainly consisted of a \$2.8 million increase in traffic acquisition costs, a \$2.4 million increase in bandwidth leasing costs, and a 1.3 million increase in depreciation expenses.

The increase in cost of search and others revenues from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$23.0 million. The increase mainly consisted of a \$13.1 million increase in traffic acquisition costs, a \$5.0 million increase in bandwidth leasing costs, and a \$3.8 million increase in depreciation expenses.

Our search and others gross margin was 49% and 46%, respectively, for the three and nine months ended September 30, 2013, as compared to 44% and 43%, respectively, for the corresponding periods in 2012. The increase in our search and others gross margin was mainly due to higher revenues from 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, depreciation and amortization expenses, bandwidth leasing costs, Business Tax and VAT arising from transactions between Changyou's subsidiaries and its VIEs, and revenue-based royalty payments to game developers.

Cost of online game revenues was \$21.8 million and \$67.4 million, respectively, for the three and nine months ended September 30, 2013, compared to \$20.8 million and \$54.5 million, respectively, for the corresponding periods in 2012.

The increase in cost of online game revenues from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$1.0 million. The increase mainly consisted of a \$1.0 million increase in Business Tax and 7Road VAT, a \$0.8 million increase in revenue-based royalty payments to game developers, and a \$0.5 million increase in salary and benefits expenses, offset by a \$1.1 million decrease in bandwidth leasing costs.

The increase in cost of online game revenues from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$12.9 million. The increase mainly consisted of a \$6.0 million increase in salary and benefits expenses, a \$3.7 million increase in Business Tax and 7Road VAT, and a \$1.5 million increase in bandwidth leasing costs.

Our online game gross margin was 87% and 86%, respectively, for the three and nine months ended September 30, 2013, as compared to 86% and 87%, respectively, for 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 \$8.1 million and \$26.3 million, respectively, for the three and nine months ended September 30, 2013, compared to \$9.5 million and \$28.5 million, respectively, for the corresponding periods in 2012. The decrease in cost of mobile revenues from the three and nine months ended September 30, 2012 to the three and nine months ended September 30, 2013 was \$1.4 million and \$2.2 million, respectively. The decreases were mainly due to decreased revenue-sharing payments.

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 third 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 third quarter of 2013 and 2012.

Our mobile gross margin was 44% and 40%, respectively, for the three and nine months ended September 30, 2013, as compared to 34% for both the three and the nine months ended September 30, 2012. The increases in our mobile gross margin were mainly due to decreased collection charges and revenue-sharing payments.

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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 \$5.1 million and \$16.7 million, respectively, for the three and nine months ended September 30, 2013, compared to \$9.3 million and \$18.7 million, respectively, for the corresponding periods in 2012. The decrease in cost of revenues for other services from the three and nine months ended September 30, 2012 to the three and nine months ended September 30, 2013 was \$4.2 million and \$2.1 million, respectively. The decreases were mainly due to decreased payments for the cinema advertisement business.

Operating Expenses

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

	Three Months Ended September 30,			Nine Months Ended September 30,						
	2013	2012	2013 vs 2012	2013	2012	2013 vs 2012				
Operating expenses:										
Product development	\$ 70,551	37%	\$ 46,994	38%	\$ 23,557	\$ 185,731	38%	\$ 128,927	39%	\$ 56,804
Sales and marketing	90,728	48%	58,250	47%	32,478	221,129	46%	145,903	43%	75,226
General and administrative	29,365	15%	19,666	15%	9,699	77,726	16%	54,968	17%	22,758
Impairment of intangible assets via acquisition of businesses	0	0%	0	0%	0	0	0%	2,906	1%	(2,906)
Total operating expenses	<u>\$190,644</u>	100%	<u>\$124,910</u>	100%	<u>\$65,734</u>	<u>\$484,586</u>	100%	<u>\$332,704</u>	100%	<u>\$151,882</u>

Total operating expenses were \$190.6 million and \$484.6 million, respectively, for the three and nine months ended September 30, 2013, compared to \$124.9 million and \$332.7 million, respectively, for the corresponding periods in 2012. The increase in operating expenses from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$65.7 million, and the increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$151.9 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 \$70.6 million and \$185.7 million, respectively, for the three and nine months ended September 30, 2013, compared to \$47.0 million and \$128.9 million, respectively, for the corresponding periods in 2012.

The increase in product development expenses from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$23.6 million. The increase mainly consisted of a \$16.7 million increase in salary and benefits expenses, which was mainly attributable to an increase in the number of employees and increased average compensation, and a \$1.9 million increase in office expenses.

The increase in product development expenses from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$56.8 million. The increase mainly consisted of a \$47.5 million increase in salary and benefits expenses, which was mainly attributable to an increase in the number of employees and increased average compensation, a \$3.0 million increase in office expenses, and a \$2.0 million increase in professional fees, offset by a \$2.3 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.

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Sales and marketing expenses were \$90.7 million and \$221.1 million, respectively, for the three and nine months ended September 30, 2013, compared to \$58.3 million and \$145.9 million, respectively, for the corresponding periods in 2012.

The increase in sales and marketing expenses from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$32.5 million. The increase mainly consisted of a \$19.6 million increase in advertising and promotional expenditures, particularly for promotion activities relating to our mobile products in our brand advertising and online games businesses, a \$9.6 million increase in salary and benefits expenses, which was mainly attributable to an increase in the number of employees and increased average compensation, and a \$1.8 million increase in travel expenses.

The increase in sales and marketing expenses from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$75.2 million. The increase mainly consisted of a \$40.3 million increase in advertising and promotional expenditures, a \$27.8 million increase in salary and benefits expenses, which was mainly attributable to an increase in the number of employees and increased average compensation, and a \$5.2 million increase in travel expenses.

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 \$29.4 million and \$77.7 million, respectively, for the three and nine months ended September 30, 2013, compared to \$19.7 million and \$55.0 million, respectively, for the corresponding periods in 2012.

The increase in general and administrative expenses from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$9.7 million. The increase mainly consisted of a \$5.7 million increase in salary and benefits expenses, which was mainly attributable to an increased number of employees and increased average compensation, a \$2.1 million increase in professional service fees, and a \$0.7 million increase in travel expenses.

The increase in general and administrative expenses from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$22.8 million. The increase mainly consisted of a \$14.4 million increase in salary and benefits expenses, which was mainly attributable to an increased number of employees and increased average compensation, an \$8.3 million increase in professional service fees, and a \$3.0 million increase in travel expenses, offset by a \$3.7 million decrease in bad debt expense, and a \$1.3 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 nine months ended September 30, 2013 and September 30, 2012, respectively, as follows (in thousands):

Share-based compensation expense	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Cost of revenues	\$ 128	\$ 232	\$ 296	\$ 426
Product development expenses	912	1,316	1,670	4,019
Sales and marketing expenses	359	582	732	1,613
General and administrative expenses	1,799	1,713	2,825	4,144
	<u>\$ 3,198</u>	<u>\$ 3,843</u>	<u>\$5,523</u>	<u>\$10,202</u>

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
For Sohu share-based awards	\$ 730	\$ 1,440	\$2,313	\$ 4,621
For Changyou share-based awards	312	750	884	2,769
For Sogou share-based awards	2,156	1,653	2,326	2,812
	<u>\$ 3,198</u>	<u>\$ 3,843</u>	<u>\$5,523</u>	<u>\$10,202</u>

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For Sohu share options, as of September 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 September 30, 2013 there was \$0.9 million of unrecognized compensation expense.

For Changyou share-based awards, as of September 30, 2013, there was \$1.0 million of unrecognized compensation expense.

For Sogou share-based awards, as of September 30, 2013, there was \$2.3 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.

Operating Profit

As a result of the foregoing, our operating profit was \$52.2 million and \$187.6 million, respectively, for the three and nine months ended September 30, 2013, compared to \$63.7 million and \$158.9 million, respectively, for the corresponding periods in 2012.

Other Income/(expense)

Other income was \$1.5 million and \$5.6 million, respectively, for the three and nine months ended September 30, 2013, compared to other income of negative \$0.1 million and \$3.3 million, respectively, for the corresponding periods in 2012.

Interest Income

Interest income was \$7.6 million and \$19.8 million, respectively, for the three and nine months ended September 30, 2013, compared to \$6.0 million and \$19.7 million, respectively, for the corresponding periods in 2012.

Income Tax Expense

Income tax expense was \$18.9 million and \$55.2 million, respectively, for the three and nine months ended September 30, 2013, compared to \$18.7 million and \$55.9 million, respectively, for the corresponding periods in 2012.

Net Income

For the three and nine months ended September 30, 2013, we had net income of \$41.1 million and \$152.5 million, respectively, compared to \$51.5 million and \$126.1 million, respectively, for the corresponding periods of 2012.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest was \$22.9 million and \$70.4 million, respectively, for the three and nine months ended September 30, 2013, compared to \$21.1 million and \$57.6 million, respectively, for the corresponding periods in 2012.

The increase in net income attributable to noncontrolling interest from the three months ended September 30, 2012 to the three months ended September 30, 2013 was \$1.8 million, of which \$1.1 million and \$0.2 million were contributed by Sogou and Changyou, respectively. The increase from the nine months ended September 30, 2012 to the nine months ended September 30, 2013 was \$12.8 million, of which \$8.1 million and \$4.7 million were contributed by Changyou and Sogou, respectively.

We expect the noncontrolling interest recognized for Changyou to decrease in the fourth quarter of 2013, compared to the third quarter of 2013.

Net Income Attributable to Sohu.com Inc.

Sohu's purchase of 24.0 million Sogou Series A Preferred Shares from Alibaba on June 29, 2012 gave rise to a deemed dividend in the amount of \$14.2 million, which was the difference between the purchase price Sohu paid to Alibaba and the carrying amount of Alibaba's net investment balance in the Group's consolidated financial statements. This deemed dividend has been subtracted from the Net income attributable to Sohu.com Inc. for the nine months ended September 30, 2012.

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The portion of the special dividend paid by Sogou on September 17, 2013 to holders of Series A Preferred Shares of Sogou other than Sohu, in the amount of \$139.7 million, is a payment to noncontrolling preferred shareholders, of which Sohu, as a holder of ordinary shares of Sogou, is deemed to have contributed \$82.4 million. This \$82.4 million has also been subtracted from the Net income attributable to Sohu.com Inc. for the three months and nine months ended September 30, 2013 to arrive at net income available to ordinary shareholders in the calculation of net income per share attributable to Sohu.com Inc.

As a result of the foregoing, we had a net loss attributable to Sohu of \$64.2 million and \$18.1 million, respectively, for the three and nine months ended September 30, 2013, compared to net income attributable to Sohu of \$25.9 million and \$47.6 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 September 30, 2013, we had cash and cash equivalents, short-term investments and investments in debt securities of approximately \$1,347 million. In addition, as of September 30, 2013, we had \$375 million cash in the form of restricted time deposits, of which \$366 million consisted of RMB deposits in onshore banks related to loans to Changyou from offshore banks in the principal amount of \$354 million.

In September 2013, Sogou received an investment from Tencent of \$448 million and paid a special dividend to holders of its Series A Preferred Shares in the amount of \$301 million, of which \$139.7 million was paid to shareholders other than Sohu.

As of September 30, 2013, Sohu Group had commitments for bandwidth purchases in the amount of \$44 million, commitments for operating leases in the amount of \$28 million, commitments for video content purchases in the amount of \$22 million and commitments for other content and service purchases in the amount of \$16 million.

On July 27, 2013, Changyou's Board of Directors authorized a share repurchase program of up to \$100 million of the outstanding American depository shares ("ADSs") of Changyou over a two-year period from July 27, 2013 to July 26, 2015. As of September 30, 2013, Changyou had repurchased 305,800 of its ADSs, representing 611,600 ordinary shares, under the share repurchase program at an aggregate cost of approximately \$9.1 million.

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):

	Nine Months Ended September 30,	
	2013	2012
Net cash provided by operating activities	\$ 275,386	\$ 279,781
Net cash used in investing activities	(309,015)	(346,743)
Net cash provided by financing activities	426,107	110,433
Effect of exchange rate change on cash and cash equivalents	14,829	(2,609)
Net increase in cash and cash equivalents	407,307	40,862
Cash and cash equivalents at beginning of period	833,535	732,607
Cash and cash equivalents at end of period	<u>\$ 1,240,842</u>	<u>\$ 773,469</u>

Net Cash Provided by Operating Activities

For the nine months ended September 30, 2013, \$275.4 million net cash provided by operating activities was primarily attributable to our net income of \$152.5 million, adjusted by non-cash items of depreciation and amortization of \$91.4 million, share-based compensation expense of \$5.5 million, impairment of other intangible assets of \$1.5 million, and an increase in cash from working capital items of \$30.5 million, offset by investment income from investments in debt securities of \$4.1 million and miscellaneous expenses of \$1.9 million.

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For the nine months ended September 30, 2012, \$279.8 million net cash provided by operating activities was primarily attributable to our net income of \$126.1 million, adjusted by non-cash items of depreciation and amortization of \$76.7 million, impairment of purchased video content of \$15.1 million, share-based compensation expense of \$10.2 million, impairment of intangible assets of \$7.5 million, other miscellaneous non-cash expenses of \$3.6 million, and an increase in cash from working capital items of \$48.2 million, offset by investment income from investments in debt securities of \$4.1 million and excess tax benefits of \$3.5 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 nine months ended September 30, 2013, \$309.0 million net cash used in investing activities was primarily attributable to \$145.9 million used to acquire fixed assets and intangible assets (including a \$3.2 million payment for the office building acquired by Sohu and a \$35.0 million payment for the office building acquired by Changyou), \$112.7 million in restricted time deposits used as collateral for Changyou loans from offshore banks, \$76.0 million used in the purchase of the noncontrolling interest in 7Road, \$9.0 million in restricted time deposits used as collateral for credit facilities provided by banks to certain Sogou employees and \$2.4 million used for investments related to other investing activities, offset by received short-term investments of \$32.9 million and investment income from investments in debt securities of \$4.1 million.

For the nine months ended September 30, 2012, \$346.7 million net cash used in investing activities was primarily attributable to \$225.8 million restricted time deposits used as collateral for loans from offshore banks, \$94.9 million used in acquiring fixed assets and intangible assets, \$20.3 million used in short-term investments, \$4.1 million used in investment income from investments in debt securities, and \$1.6 million used in business acquisition and other investment activities.

Net Cash Provided by Financing Activities

For the nine months ended September 30, 2013, \$426.1 million net cash provided by financing activities was primarily attributable to \$475.5 million cash received from Tencent in connection with the “Sogou-Tencent Transactions,” \$111.5 million of Changyou loans from offshore banks, \$5.3 million in proceeds received from early exercise of share-based awards in Sogou, \$1.8 million from the exercise of share-based awards in Sogou, and \$1.0 million from the issuance of common stock upon the exercise of share options granted under our stock incentive plan, offset by \$139.7 million used for the Sogou dividend distributed to holders of Sogou Series A Preferred Shares other than Sohu Search, \$19.7 million used for contingent consideration paid by Changyou to 7Road’s noncontrolling shareholders, \$9.1 million used for the repurchase of ADSs of Changyou and \$0.5 million used for other cash payments related to financing activities.

For the nine months ended September 30, 2012, \$110.4 million net cash provided by financing activities was primarily attributable to \$222.4 million of loans from offshore banks, \$3.5 million excess tax benefits, and \$1.3 million from the exercise of share-based awards in a subsidiary, offset by \$64.6 million used for the portion of the Changyou dividend distributed to noncontrolling interest shareholders, \$25.8 million used for the purchase of Sogou Series A Preferred Shares from Alibaba, \$13.8 million used for the payment of contingent consideration, and \$12.6 million used for the repurchase of our common stock.

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.

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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 September 30, 2013, we had accrued deferred tax liabilities in the amount of \$16.8 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 nine months ended September 30, 2013.

Substantially all of Changyou's operations are conducted through its VIEs, which generate most 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 September 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. 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 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.

In September 2013, Sogou distributed a special dividend to holders of its Series A Preferred Shares in the amount of \$301 million, of which Sohu received \$161 million, Photon received \$43 million, and China Web received \$97 million. The Sohu Group does not expect to pay any of such dividend to its shareholders in the foreseeable future.

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 November 2013, the center point of the currency's official trading band hit 6.1452, representing appreciation of more than 11.1% since June 19, 2010. 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.

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

The following table sets forth a summary of our foreign currency sensitive financial instruments as of September 30, 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	565,952	670,613	3,329	948	1,240,842
Restricted time deposits	9,240	365,747	0	0	374,987
Short-term investments	0	24,369	0	0	24,369
Investments in debt securities	0	81,327	0	0	81,327
Accounts Receivable	1,435	151,480	33	336	153,284
Prepaid and other current assets	1,092	93,684	40	685	95,501
Current liabilities	301,673	678,340	1	5,311	985,325
Long-term accounts payable	0	7,333	0	0	7,333
Long-term bank loans	0	0	0	0	0

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 loans to Changyou from offshore banks. We have not used derivative financial instruments in our investment portfolio in order to reduce this risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates.

INFLATION RATE RISK

According to the National Bureau of Statistics of China, the consumer price index grew 3.1% in the first nine months 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.

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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 nine months ended September 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.

SIGNATURES

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

Dated: November 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 September 30, 2013

EXHIBITS INDEX

- 10.1 Subscription Agreement dated September 16, 2013 among Sogou Inc, Sohu Search, Photon and THL A21 Limited.
- 10.2 Shareholders' Agreement dated September 16, 2013 among Sogou Inc, Sohu Search, Photon, THL A21 Limited, Sogou Management and Management Trusts.
- 10.3 5th Restated Memorandum and 2nd Restated Articles of Association of Sogou Inc. adopted on September 16, 2013.
- 10.4 Voting Agreement dated September 16, 2013 among Sogou Inc, Sohu Search, Photon, Sogou Management and Management Trusts.
- 10.5 Termination Agreement dated September 16, 2013 among Sogou Inc, China Web, Photon and Sohu Search regarding Amended and Restated Investors' Rights Agreement Amended and Restated Right of First Refusal and Co-Sale Agreement both dated June 29, 2013.
- 10.6 Repurchase Option Agreement dated September 16, 2013 between Sogou Inc and Sohu Search.
- 10.7 Repurchase Option Agreement dated September 16, 2013 between Sogou Inc and China Web.
- 10.8 Repurchase Option Agreement dated September 16, 2013 between Sogou Inc and Photon.
- 10.9 Equity Transfer Contract dated September 16, 2013 between Tencent Computer System Company Limited and Sogou Information.
- 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 September 30, 2013 and December 31, 2012; (ii) Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2013 and 2012; (iii) Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012; (iv) Condensed Consolidated Statements of Changes in Equity for the Nine Months Ended September 30, 2013 and 2012; and (v) Notes to Condensed Consolidated Financial Statements, tagged using four different levels of detail.

SUBSCRIPTION AGREEMENT (this "Agreement") made on the 16th day of September, 2013

AMONG:

- (1) **SOGOUC INC.**, an exempted company with limited liability incorporated under the laws of the Cayman Islands (the "Company");
- (2) **SOHU.COM (SEARCH) LIMITED**, an exempted company with limited liability incorporated under the laws of the Cayman Islands ("Sohu Search");
- (3) **THL A21 LIMITED**, a BVI Business Company incorporated in the British Virgin Islands ("Investor"); and
- (4) **PHOTON GROUP LIMITED**, a company incorporated under the laws of the British Virgin Islands ("Photon").

(together, the "Parties" and each, a "Party").

RECITALS:

- (A) The Company is an exempted company with limited liability organized and existing under the laws of the Cayman Islands. Further particulars of the Company and its Subsidiaries are set out in Schedule 2.
- (B) On the date hereof and immediately prior to Completion (as defined below), the Sohu Search Consortium (as defined below) and various current or former employees of the Company and its Affiliates hold 100% of the issued share capital of the Company comprising of ordinary shares and Series A Preferred Shares (as defined below).
- (C) Upon the terms and subject to the conditions set forth herein, the Company shall allot and issue to the Investor, and the Investor shall subscribe for certain Class B Ordinary Shares and Series B Preferred Shares. At Completion, the existing ordinary shares shall be re-designated as Class A Ordinary Shares, as defined below.
- (D) The Investor wishes to invest in the Company by subscribing for the Subscribed Shares (as defined below) to be issued by the Company, and the Investor wish to induce the Company to accept the consideration for and issue the Subscribed Shares, pursuant to the terms and subject to the conditions of this Agreement.
- (E) The Parties desire to enter into this Agreement and make the respective representations, warranties, covenants and agreements set forth herein on the terms and conditions set forth herein.

**SECTION 1
INTERPRETATION**

1.1 Definitions. In this Agreement, unless the context otherwise requires the following words and expressions have the following meanings:

“Affiliate” of a Person (the “Subject Person”) means a Person that directly or indirectly through one or more intermediaries Controls or is Controlled by or is under common Control with the Subject Person.

“Basic Documents” means this Agreement, the Shareholders’ Agreement, the Voting Agreement, the Restated Charter and such of the Material Contracts (as defined in Schedule 1) as are designated as such.

“Board” means the board of directors of the Company.

“Business Day” means any day other than Saturday, Sunday or other day on which commercial banks located in the Cayman Islands, the United States of America, the PRC or Hong Kong are authorized or required by law or executive order to be closed and on which no tropical cyclone warning no.8 or above and no “black” rainstorm warning signal is hoisted in Hong Kong at any time between 8:00 a.m. and 6:00 p.m. Hong Kong time.

“BVI Co” means Sogou (BVI) Limited, a BVI Business Company organized and existing under the laws of the British Virgin Islands with its registered office at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and a wholly owned subsidiary of the Company.

“China” or the “PRC” means the People’s Republic of China, and for purposes of this Agreement, excluding Hong Kong and Macau Special Administrative Regions of the PRC and Taiwan.

“China Web” means China Web Search (HK) Limited, a company limited by shares organized and existing under the laws of Hong Kong with its registered office at Suite 801, Winsome House, 73 Wyndham Street, Central, Hong Kong.

“Class A Ordinary Shares” means the class A ordinary shares of par value \$0.001 each, which will be created by re-designating all the ordinary shares, par value \$0.001 each, of the Company issued and outstanding prior to Completion.

“Class B Ordinary Shares” means the class B ordinary shares of par value \$0.001 each, which will be a new class of shares created prior to, and issued by the Company upon, Completion.

“Completion” means the completion of the subscription for and issuance of the Subscribed Shares in accordance with the provisions of this Agreement.

“Completion Date” means the date hereof.

“Contributed IP” means the intellectual property assets owned by Tencent ParentCo as set forth on Schedule 4 and to be transferred to BVICo at Completion pursuant to Section 2.1(b)(ii).

“Control” of a Person means (a) ownership of more than 50% of the shares in issue or other equity interests or registered capital of such Person or (b) the power to direct the management or policies of such Person, whether through the ownership of more than 50% of the voting power of such Person, through the power to appoint a majority of the members of the board of directors or similar governing body of such Person, through contractual arrangements or otherwise.

“Disclosure Schedule” means, in respect of the Company Warranties, the disclosure schedule delivered by Sohu Search and the Company to the Investor on the date hereof.

“Encumbrances” means (a) any mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment, deed of trust, title retention, security interest or other encumbrance of any kind securing, or conferring any priority of payment in respect of, any obligation of any Person, including without limitation any right granted by a transaction which, in legal terms, is not the granting of security but which has an economic or financial effect similar to the granting of security under applicable law, (b) any lease, sub-lease, occupancy agreement, easement or covenant granting a right of use or occupancy to any Person, (c) any proxy, power of attorney, voting trust agreement, interest, option, right of first offer, negotiation or refusal or transfer restriction in favor of any Person and (d) any adverse claim as to title, possession or use.

“Equity Securities” means, with respect to any Person, such Person’s equity capital, membership interests, partnership interests, registered capital, joint venture or other ownership interests or any options, warrants or other securities that are directly or indirectly convertible into, or exercisable or exchangeable for, such equity capital, membership interests, partnership interests, registered capital, joint venture or other ownership interest (whether or not such derivative securities are issued by such Person). Unless the context otherwise requires, any reference to “Equity Securities” refers to the Equity Securities of the Company.

“Existing Shareholders” means all shareholders of the Company immediately prior to Completion.

“Fundamental Company Warranties” means the warranties made by the Company, Sohu Search and Photon (as applicable) in paragraphs 1 to 6 in Part A of Schedule 1 and paragraphs 1 to 9 in Part B of Schedule 1.

“Fundamental Investor Warranties” means the warranties made by the Investor in paragraphs 1 to 6 in Part A of Schedule 1.

“Governmental Authority” means any government or political subdivision thereof; any department, agency or instrumentality of any government or political subdivision thereof; any court or arbitral tribunal; and the governing body of any securities exchange.

“Group” means collectively the Company and its Subsidiaries (which includes Sogou OpCo), and “Group Member” means any of them.

“Hong Kong” means the Hong Kong Special Administrative Region of the PRC.

“HKCo-1” means Sogou Hong Kong Limited, a company limited by shares organized and existing under the laws of Hong Kong with its registered office at 12th Floor, Ruttonjee House, 11 Duddell Street, Central, Hong Kong and a wholly-owned subsidiary of the Company.

“HKCo-2” means Vast Creation Advertising Media Services Limited, a company limited by shares organized and existing under the laws of Hong Kong with its registered office at Room 1705, 17th Floor, Yardley Commercial Building, 1-6 Connaught Road West, Hong Kong and a wholly-owned subsidiary of the Company.

“Non-Fundamental Company Warranties” means the Company Warranties other than the Fundamental Company Warranties.

“Non-Fundamental Investor Warranties” means the Investor Warranties other than the Fundamental Investor Warranties.

“Person” means any natural person, firm, company, governmental authority, joint venture, partnership, association or other entity (whether or not having separate legal personality).

“Renminbi” or “RMB” means Renminbi, the lawful currency of the PRC.

“Restated Charter” means the Fifth Amended and Restated Memorandum and the Second Amended and Restated Articles of Association of the Company, in the form of Exhibit A, to be adopted by the Company at or prior to Completion.

“Series A Preferred Holders” means all holders of Series A Preferred Shares immediately prior to the Completion.

“Series A Preferred Shares” means the Series A Preferred Shares, par value US\$0.001, of the Company.

“Series B Preferred Shares” means the Series B Preferred Shares of par value US\$0.001 each, which will be a new class of shares created prior to, and issued by the Company upon, Completion.

“Shareholders’ Agreement” means the shareholders’ agreement entered into by and among Sohu Search, Photon, Sogou Management, the Investor and the other parties named therein on the date hereof.

“Sogou Management” means the individuals identified in Schedule 3.

“Sogou OpCo” means 北京搜狗信息服务有限公司(Beijing Sogou Information Service Co., Ltd.), a PRC company organized and existing under the laws of the PRC and an entity Controlled by the Company.

“Sohu Search Consortium” means Sohu Search, Photon, China Web and Sogou Management, collectively.

“Subscribed Shares” means the Subscribed B Ordinary Shares and the Subscribed B Preferred Shares.

“Subsidiary” means, with respect to any specified Person, any other Person Controlled by the specified Person, directly or indirectly, whether through contractual arrangements or through ownership of equity securities, voting power or registered capital. For the avoidance of the doubt, a variable interest entity Controlled by another entity shall be deemed a Subsidiary of that other entity.

“Termination Agreement” means the termination agreement entered into by and among the Company, Sohu Search, Photon and China Web on the date hereof.

“Tencent ParentCo” means Tencent Holdings Limited, an exempted company with limited liability organized and existing under the laws of the Cayman Islands with its registered address at 4th Floor, Royal Bank House, 24 Shedden Road, George Town, Grand Cayman KY1-1110, Cayman Islands.

“Transaction” means the transactions contemplated under this Agreement and all related transactions and matters provided for or contemplated in this Agreement and the other Basic Documents.

“Voting Agreement” means the voting agreement in the form of Exhibit B to be entered into by and among Sohu Search, Photon and Sogou Management at Completion.

“Warranties” means collectively the Company Warranties and the Investor Warranties set forth in Schedule 1.

“WFOE-1” means 北京搜狗科技发展有限公司(Beijing Sogou Technology Development Co., Ltd.), a wholly-foreign owned enterprise organized and existing under the laws of the PRC with its registered address at Room 01, 9/F, Building No.9 Sohu.com Internet Plaza, No. 1 Zhongguancun Road East, Haidian District, Beijing, PRC and an indirectly wholly-owned subsidiary of the Company.

“WFOE-2” means 北京搜狗网络技术有限公司 (Beijing Sogou Network Technology Co., Ltd.), a wholly-foreign owned enterprise organized and existing under the laws of the PRC with its registered address at Room 1916, 19/F, Building No. 4, No. 1 Wang Zhuang Road, Haidian District, Beijing, PRC and an indirectly wholly-owned subsidiary of the Company.

“\$” or “US\$” means United States Dollars, the lawful currency of the United States of America.

1.2 Terms Defined Elsewhere in this Agreement. The following terms are defined in this Agreement as follows:

<u>Term</u>	<u>Section</u>
“ <u>Agreement</u> ”	Preamble
“ <u>Basic Warranties</u> ”	Section 4.1
“ <u>Cash Consideration</u> ”	Section 2.1(b)(i)
“ <u>Company</u> ”	Preamble
“ <u>Company Indemnified Party</u> ”	Section 7.1(b)
“ <u>Company Indemnifying Party</u> ”	Section 7.1(a)
“ <u>Company Losses</u> ”	Section 7.1(b)
“ <u>Company Specific Warranties</u> ”	Section 4.2
“ <u>Company Warranties</u> ”	Section 4.2
“ <u>Company Warrantors</u> ”	Section 4.2
“ <u>Confidential Information</u> ”	Section 5.1
“ <u>HKIAC</u> ”	Section 10.2(b)
“ <u>Initial Bank Account</u> ”	Section 3.2(a)(x)
“ <u>Investor</u> ”	Preamble
“ <u>Investor Indemnified Party</u> ”	Section 7.1(a)
“ <u>Investor Losses</u> ”	Section 7.1(a)
“ <u>Investor Specific Warranties</u> ”	Section 4.3
“ <u>Investor Warranties</u> ”	Section 4.3
“ <u>Notices</u> ”	Section 8.1
“ <u>Party</u> ” or “ <u>Parties</u> ”	Preamble
“ <u>Photon</u> ”	Preamble
“ <u>Representatives</u> ”	Section 5.1
“ <u>Sohu Search</u> ”	Preamble
“ <u>Survival Period</u> ”	Section 4.8
“ <u>Subscribed B Ordinary Shares</u> ”	Section 2.1(a)
“ <u>Subscribed B Preferred Shares</u> ”	Section 2.1(a)

1.3 Interpretation.

- (a) Directly or Indirectly. The phrase “directly or indirectly” means directly, or indirectly through one or more intermediate Persons or through contractual or other arrangements, and “direct or indirect” has the correlative meaning.
- (b) Gender and Number. Unless the context otherwise requires, all words (whether gender-specific or gender neutral) shall be deemed to include each of the masculine, feminine and neuter genders, and words importing the singular include the plural and vice versa.

- (c) **Headings.** Headings are included for convenience only and shall not affect the construction of any provision of this Agreement.
- (d) **Include not Limiting.** “Include,” “including,” “are inclusive of” and similar expressions are not expressions of limitation and shall be construed as if followed by the words “without limitation.”
- (e) **Law.** References to “law” shall include all applicable laws, regulations, rules and orders of any Governmental Authority, securities exchange or other self-regulating body, any common or customary law, constitution, code, ordinance, statute or other legislative measure and any regulation, rule, treaty, order, decree or judgment; and “lawful” shall be construed accordingly.
- (f) **References to Documents.** References to this Agreement include the Schedules and Exhibits, which form an integral part hereof. A reference to any Section, Schedule or Exhibit is, unless otherwise specified, to such Section of, or Schedule or Exhibit to this Agreement. The words “hereof,” “hereunder” and “hereto,” and words of like shall, unless the context requires otherwise, refer to this Agreement as a whole and not to any particular Section hereof or Schedule or Exhibit hereto. Unless specified otherwise, a reference to any document (including this Agreement) is to that document as amended, consolidated, supplemented, novated or replaced from time to time.
- (g) **Share Calculations.** In calculations of share numbers, references to “fully diluted basis” mean that the calculation is to be made assuming that all outstanding options, warrants and other Equity Securities convertible into or exercisable or exchangeable for ordinary shares (whether or not by their terms then currently convertible) have been so converted, exercised or exchanged, and references to “non-diluted basis” mean the calculation is to be made taken into account only shares then in issue. All references to number of shares or the prices per share in this Agreement shall be appropriately adjusted to take into account any share splits, combinations, reorganizations, share dividends, mergers, recapitalizations similar events that affect the share capital of the Company the date hereof.
- (h) **Time.** If a period of time and dates from a given day or the day of a given act or event is specified, such period shall be calculated inclusive of that day.

**SECTION 2
SUBSCRIPTION**

2.1 Subscription.

- (a) On the date hereof and at Completion, upon the terms and subject to the conditions of this Agreement, the Investor shall subscribe for, and the Company shall allot and issue to the Investor (i) 79,368,421 Class B Ordinary Shares (the "Subscribed B Ordinary Shares") and (ii) 65,431,579 Series B Preferred Shares (the "Subscribed B Preferred Shares").
- (b) In consideration of the issuance of the Subscribed Shares by the Company, the Investor shall:
 - (i) pay to the Company a cash consideration of \$475,471,816 (the "Cash Consideration"); and
 - (ii) procure Tencent ParentCo to transfer the Contributed IP to BVICo.

2.2 Simultaneous Completion. Completion of the subscription of the Subscribed Shares pursuant to Section 2.1(a) shall take place simultaneously.

2.3 No Conditions Precedent to Completion. There shall be no conditions to the obligations of each Party to proceed with the transactions set out in Section 2.1 on the date hereof.

**SECTION 3
COMPLETION AND POST-COMPLETION ACTIONS**

3.1 Time and Place of Completion. The Completion shall take place at the offices of the Company in Beijing on the date hereof, or at such other time and place as the Parties may agree.

3.2 Actions at Completion. At Completion:

- (a) the Company shall, and Sohu Search shall procure that the Company shall, by all necessary action of the Board and the Existing Shareholders:
 - (i) adopt the Restated Charter;
 - (ii) re-designate all of the existing and outstanding ordinary shares into 168,310,758 Class A Ordinary Shares;
 - (iii) authorize and create the Class B Ordinary Shares, and issue and allot 79,368,421 Class B Ordinary Shares to the Investor;
 - (iv) authorize and create the Series B Preferred Shares, and issue and allot 65,431,579 Series B Preferred Shares to the Investor;
 - (v) appoint two nominees of the Investor as directors on the Board; for the avoidance of doubt, the total number of directors on the Board immediately after Completion shall be five;

- (vi) deliver to the Investor a copy of the register of members of the Company with the Investor duly registered thereon as the owner of 79,368,421 Class B Ordinary Shares and 65,431,579 Series B Preferred Shares and all other shareholders as holders of either Class A Ordinary Shares or Series A Preferred Shares;
 - (vii) deliver to the Investor a copy of all Board resolutions and shareholders' resolutions (both ordinary and special), including all attachments thereto, required to effect all the actions described in this Section 3.2(a);
 - (viii) deliver to the Investor a copy of the register of directors of the Company reflecting the appointments set out in Section 3.2(a)(v) above;
 - (ix) deliver to the Investor an opinion from Cayman Islands counsel to the Company, dated as of the Completion Date, in form and substance satisfactory to the Investor and covering the agreed matters; and
 - (x) appoint a Person designated by the Investor (who shall be one of the two directors appointed in Section 3.2(a)(v) above) to be an authorized signatory of the Company's bank account into which the Cash Consideration is paid (the "Initial Bank Account") with such signing authority as determined by the Board and agreed with the Investor.
- (b) the Investor shall:
- (i) pay the Cash Consideration in immediately available cleared funds and in US\$ to the Initial Bank Account, details of which have been provided to the Investor by the Company at least three (3) Business Days prior to Completion; and
 - (ii) deliver to the Company a copy of all its board resolutions and shareholder resolutions (to the extent required by applicable laws or the constitutive documents of the Investor), including all attachments thereto, required to effect the Investor's obligations under the Transaction and the Basic Documents;
- (c) the Company, Sohu Search, Photon, the members of Sogou Management and the Investor shall enter into the Shareholders' Agreement;
- (d) Sohu Search, Photon and Sogou Management shall enter into the Voting Agreement; and
- (e) the Company and each member of the Sohu Search Consortium shall enter into the Termination Agreement.

3.3 Post Completion Covenants.

- (a) Immediately after Completion, the Board (which, for the avoidance of doubt, shall include the directors appointed under Section 3.2(a)(v) above) shall pass certain resolutions authorizing certain additional operational matters in the form agreed to by the Company and the Investor.
- (b) The Company agrees and covenants to the Investor that prior to the use of the Cash Consideration in full by the Company, the Company shall not remove the Investor appointed director as a signatory to the Initial Bank Account or change its bank account authorization or limit for the Initial Bank Account without the Investor's written consent. The Company further agrees and covenants to the Investor that the approval and signature of Martin Chi Ping LAU shall be required for any payment or withdrawal that would reduce the balance in the Initial Bank Account below such amount as is equal to (i) US\$147,107,302 (One Forty-Seven Million One Hundred Seven Thousand Three Hundred Two U.S. Dollars) minus (ii) the aggregate of all amounts previously paid or withdrawn with the approval and signature of Martin Chi Ping LAU.
- (c) To the extent not completed on the Completion Date, as soon as possible after Completion, the Investor shall procure Tencent ParentCo to finalize formalities and sign all such documents as may be reasonable to complete any post Completion registration requirements to transfer the ownership of the Contributed IP to BVICo.
- (d) The Investor shall procure that its Affiliates who are parties thereto comply with their obligations under the Basic Documents to which they are parties.
- (e) The Company, Sohu Search and Photon shall procure that their Affiliates who are parties thereto comply with their obligations under the Basic Documents to which they are parties.
- (f) As soon as possible after Completion, the Company shall deliver to the Investor share certificates, duly issued in the name of the Investor and reflecting the Investor's ownership of the Subscribed Shares.

SECTION 4 REPRESENTATIONS AND WARRANTIES

- 4.1 Basic Warranties. Each Party hereby represents and warrants to the other Parties in the terms set forth in Part A of Schedule 1 (the "Basic Warranties") with respect to itself.
- 4.2 Company Warranties. Sohu Search and the Company (the "Company Warrantors") hereby jointly and severally represent and warrant to the Investor in the terms set forth in Part B of Schedule 1 (the "Company Specific Warranties", together with the Basic Warranties made by Sohu Search and the Company, the "Company Warranties").

- 4.3 Investor Warranties. The Investor represents and warrants to Sohu Search and the Company in the terms set forth in Part C of Schedule 1 (the “Investor Specific Warranties”, together with the Basic Warranties made by the Investor, the “Investor Warranties”).
- 4.4 Date of Warranty. Each Warranty is made on the date of this Agreement.
- 4.5 No Implied or Other Warranties.
- (a) The Parties agree and acknowledge that other than:
- (i) the Company Warranties made by the Company Warrantors pursuant to Section 4.1 above; and
 - (ii) the Investor Warranties made by the Investor pursuant to Section 4.3 above,
- none of the Company Warrantors or the Investor are making any representations or warranties with respect to the matters contemplated by this Agreement.
- (b) Without limiting the foregoing:
- (i) The Investor acknowledges and agrees that the Company Warranties made by the Company Warrantors pursuant to Section 4.1 above are the sole representations or warranties made with respect to the Company and/or its operations, financial condition, business, assets, capital structure, liabilities and any other matter impacting the Company, and the Investor acknowledges and agrees that it is relying solely on such representations and warranties in deciding to enter into this Agreement, and expressly waives any rights or remedies with respect to any statement, information, or data made or provided to, or obtained by the Investor other than such sole representations and warranties; and
 - (ii) the Company Warrantors acknowledge and agree that the Investor Warranties made by the Investor pursuant to Section 4.3 above are the sole representations or warranties made with respect to the Investor and/or its operations, financial condition, business, assets, capital structure, liabilities and any other matter impacting the Investor and the Contributed IP, and the Company Warrantors acknowledge and agree that each of them is relying solely on such representations and warranties in deciding to enter into this Agreement, and expressly waives any rights or remedies with respect to any statement, information, or data made or provided to, or obtained by, the Company Warrantors other than such sole representations and warranties.
- 4.6 Specific Disclosure. Disclosure of any matter in a Disclosure Schedule corresponding to a particular Warranty shall, should the existence of such matter or its contents be relevant, as reasonably apparent on its face, to any other Warranty, be deemed to be disclosed for that other Warranty whether or not an explicit cross reference appears.

- 4.7 Knowledge of Claims. The Warranties are given subject to the matters in respect of any Warranty (i) disclosed in the Disclosure Schedule (including the schedules and appendices thereof) or (ii) otherwise “Disclosed”, as such term is defined in Schedule 1 herein.
- 4.8 Survival. The Warranties shall survive for a period of 18 months from the date hereof (“Survival Period”).

SECTION 5
CONFIDENTIALITY AND RESTRICTIONS ON PUBLICITY

- 5.1 General Obligation. Each Party undertakes to the other Parties that it shall not reveal, and that it shall procure that its directors, equity interest holders, officers, employees, agents or Affiliates (collectively, “Representatives”) do not reveal, to any third party any Confidential Information without the prior written consent of the Company or the concerned Party, as the case may be, or use any Confidential Information in such manner that is detrimental to the Company or the concerned Party, as the case may be. The term “Confidential Information” as used in this Section 5 means, (a) any information concerning the organization, business, technology, intellectual property, safety records, investment, finance, transactions or other affairs of any Party or any of their respective directors, officers or employees (whether conveyed in written, oral or in any other form and whether such information is furnished before, on or after the date of this Agreement); (b) the terms of this Agreement or any of the other Basic Documents, or the identities of the Parties and their respective Affiliates; and (c) any other information or materials prepared by a Party or its Representatives that contains or otherwise reflects, or is generated or derived from, information set forth in (a). “Confidential Information” does not include information: (i) that is or becomes generally available to the public other than as a result of disclosure by or at the direction of a Party or any of the Representatives in violation of this Agreement or any Basic Document, (ii) that was in the possession of the receiving Party prior to the disclosure, if to the knowledge of the receiving Party, the source of the information does not owe confidentiality obligation to the concerned Party, or (iii) that is independently developed by a Party or its Representatives without reference to or reliance on any Confidential Information.
- 5.2 Exceptions. The provisions of Section 5.1 shall not apply to:
- (a) disclosure of Confidential Information that is permitted by this Agreement or any other Basic Document;
 - (b) disclosure by a Party to a Representative or an Affiliate so long as such disclosure is necessary in order for that Party to perform its obligations, or exercise its rights, under this Agreement or any other Basic Document to which it is a party, provided that such Representative or an Affiliate (i) is under a similar obligation of confidentiality or (ii) is otherwise under a binding professional obligation of confidentiality; or

(c) disclosure, after giving prior notice to the other Parties to the extent practicable under the circumstances and subject to any practicable arrangements to protect confidentiality, to the extent required under the rules of any stock exchange on which the shares of a Party or its parent company are listed or by applicable laws or judicial or regulatory process or in connection with any judicial process regarding any legal action, suit or proceeding arising out of or relating to this Agreement.

5.3 Publicity. No Party shall make, and each Party shall cause its respective officers, employees, agents and Affiliates and the respective officers, employees or agents of each such Affiliate to not make, any public announcement or comment regarding this Agreement or the transactions contemplated hereby without first consulting with and obtaining the written consent of the other Parties, except to the extent that such announcement or comment is required by law or any regulations governing stock exchanges, pursuant to a court order, by any securities exchange on which securities of such Party or an Affiliate thereof are listed or by any governmental or regulatory body.

SECTION 6 EXPENSES

6.1 Fees and Expenses. All Parties shall bear their own respective expenses incurred in connection with the preparation, execution, negotiation and performance of this Agreement and the other Basic Documents and the transactions contemplated hereby and thereby, including all fees and expenses of agents, representatives, counsel and accountants.

SECTION 7 INDEMNIFICATION

7.1 Indemnification.

(a) Sohu Search, Photon and the Company (each, a “Company Indemnifying Party”) shall indemnify, defend and hold harmless the Investor and its Affiliates, officers, directors, agents and employees (each, an “Investor Indemnified Party”) from and against any and all losses, damages, liabilities, claims, proceedings, Taxes, costs and expenses (including the fees, disbursements and other charges of counsel reasonably incurred by the Investor Indemnified Party in any action between the Company Indemnifying Party and the Investor Indemnified Party or between the Investor Indemnified Party and any third party, in connection with any investigation or evaluation of a claim or otherwise) (collectively, “Investor Losses”) resulting from or arising out of any breach by the Company Indemnifying Party of any Company Warranty or any other covenant or agreement in this Agreement or any other Basic Document.

- (b) The Investor shall indemnify, defend and hold harmless Sohu Search, Photon and the Company and their respective Affiliates, officers, directors, agents and employees (each, a “Company Indemnified Party”) from and against any and all losses, damages, liabilities, claims, proceedings, Taxes, costs and expenses (including the fees, disbursements and other charges of counsel reasonably incurred by the Company Indemnified Party in any action between the Investor and the Company Indemnified Party or between the Company Indemnified Party and any third party, in connection with any investigation or evaluation of a claim or otherwise) (collectively, “Company Losses”) resulting from or arising out of any breach by the Investor of any Investor Warranty or any other covenant or agreement in this Agreement or any other Basic Document.
- 7.2 Breach of Warranties. The amount of any payment to any Company Indemnified Party or Investor Indemnified Party (as the case may be) pursuant to Section 7.1 shall be sufficient to make such Company Indemnified Party or Investor Indemnified Party (as the case may be) whole for any Company Losses or Investor Losses (as the case may be) incurred by it resulting from a breach of a Company Warranty or Investor Warranty (as the case may be). In connection with the indemnification obligation of the Company Indemnifying Party or the Investor (as the case may be) as set forth above, the Company Indemnifying Party or the Investor (as the case may be) shall, upon presentation of appropriate invoices containing reasonable detail, reimburse each Company Indemnified Party or Investor Indemnified Party (as the case may be) for all such expenses as they are incurred by such Company Indemnified Party or Investor Indemnified Party (as the case may be).
- 7.3 Limitation on Liability. Notwithstanding anything herein:
- (a) In no event shall a Company Indemnifying Party or the Investor be liable for any indirect losses or remote, speculative, exemplary, consequential, or punitive damages or damages based on any type of multiples.
- (b) No Company Indemnifying Party or the Investor shall be liable in respect of any claim for any Investor Losses or Company Losses (as the case may be) (or a series of claims arising from substantially similar facts or circumstances) unless and until the amount that would otherwise be recoverable from such Company Indemnifying Party or such the Investor (but for this Section 7.3(b)) in respect of any such claim or series of claims arising from substantially similar facts or circumstances in aggregate exceeds \$100,000.
- (c) No Company Indemnifying Party or the Investor shall be liable in respect of a claim for any Investor Losses or Company Losses (as the case may be) unless and until the amount that would be otherwise recoverable from such Company Indemnifying Party or the Investor (but for this Section 7.3(c)) in respect of such claim, when aggregated with any other amount or amounts recoverable from such Company Indemnifying Party or the Investor in respect of other claims (excluding any amounts in respect of a claim for which such Company Indemnifying Party or the Investor has no liability because of Section 7.3(b)), exceeds \$1,000,000. In such an event, the Company Indemnifying Party or the Investor (as the case may be) shall be liable for the entire aggregate amount of the Investor Losses or Company Losses (as the case may be) and not just the excess.

- (d) For the avoidance of doubt and notwithstanding any other provision in this Agreement:
- (i) in no circumstance shall the aggregate liability of the Company Indemnifying Parties or the Investor (as the case may be) in respect of all Investor Losses or Company Losses (respectively) resulting from or arising out of:
 - (x) any breach by any Company Indemnifying Party of any Fundamental Company Warranties, combined with any liability under Section 7.3(d)(ii)(x), exceed, in respect of (1) the Company, \$448,000,000, and in respect of (2) Sohu Search, \$240,000,000 and (3) Photon, \$64,000,000, provided that the aggregate liability of the Company Indemnifying Parties under this Section 7.3(d)(i)(x) shall not exceed \$448,000,000; and
 - (y) any breach by the Investor of any Fundamental Investor Warranties, combined with any liability under Section 7.3(d)(ii)(y), exceed \$448,000,000; and
 - (ii) in no circumstance shall the aggregate liability of Company Indemnifying Parties or the Investor (as the case may be) in respect of all Investor Losses or Company Losses (respectively) resulting from or arising out of:
 - (x) any breach by any Company Indemnifying Party of any Non-Fundamental Company Warranties exceed, in respect of (1) the Company, \$89,600,000, and in respect of (2) Sohu Search, \$48,000,000 and (3) Photon, \$12,800,000, provided that the aggregate liability of the Company Indemnifying Parties under this Section 7.3(d)(ii)(x) shall not exceed \$89,600,000; and
 - (y) any breach by the Investor of any Non-Fundamental Investor Warranties exceed \$89,600,000.
- (e) Each Company Indemnified Party and Investor Indemnified Party shall procure and ensure that all reasonable steps are taken and all reasonable assistance is given to avoid or mitigate any Company Losses or Investor Losses (respectively) which in the absence of mitigation might give rise to a liability in respect of any claim under this Agreement.

- (f) For the avoidance of doubt, any claim for a breach of a Company Warranty or Investor Warranty shall be qualified by and subject to any relevant disclosure made in the Disclosure Schedule or otherwise “Disclosed”, as such term is defined in Schedule 1 to against on such Warranties.
 - (g) In determining Investor Losses or Company Losses (as the case may be) subject to indemnification hereunder, the amount of such Investor Losses or Company Losses shall be calculated taking into account and giving credit against the Investor Losses or the Company Losses, as applicable, any insurance proceeds (or other contribution or payment from any third party) actually received by an Investor Indemnified Party or a Company Indemnified Party, as applicable, (net of any cost and expenses reasonably incurred in receiving such proceeds, contribution or payment and any increase in premium), and the Investor Indemnified Party or the Company Indemnified Party, as applicable, shall use commercially reasonable efforts to pursue and collect any such insurance proceeds, contribution or other payments. The foregoing sentence shall not oblige any Investor Indemnified Party or Company Indemnified Party to procure any insurance policy or to take action which would result in an increase in premiums, a change in coverage or any other adverse change under any insurance policy.
 - (h) No Company Indemnified Party or Investor Indemnified Party will be entitled to indemnification with respect to any claim made pursuant to this Section 7 for Company Losses or Investor Losses (as the case may be) unless written notice of a possible claim for indemnification with respect to such Company Losses or Investor Losses (as the case may be) is given by the Party seeking indemnification to the other Party prior to the expiration of the Survival Period.
- 7.4 Remedies. The indemnity provision set out in this Section 7 shall be the exclusive remedy for any breach of this Agreement or any other Basic Document, or in connection with the matters contemplated hereby or thereby, except (i) for claims of fraud and (ii) that the Parties shall be entitled to specific performance under this Agreement. The Parties agree that monetary damages may not be adequate compensation for any loss incurred by a Party by reason of any breach of obligations contained in this Agreement by the other Parties and each Party hereby agrees to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

**SECTION 8
NOTICES**

8.1 Notice Addresses and Method of Delivery. All notices, requests, demands, consents and other communications (“Notices”) required to be given by any Party to any other Party shall be in writing and delivered by hand delivery, express courier, email, or facsimile to the applicable Party at the address or facsimile number stated below:

if to Sohu Search: **SOHU.COM (SEARCH) LIMITED**
Floor 4, Willow House, Cricket Square, P.O. Box
2804, Grand Cayman KY1-1112, Cayman Islands
Email: carol@sohu-inc.com

with a copy to:
Goulston & Storrs PC
400 Atlantic Avenue
Boston, MA 02110

Attention: Timothy B. Bancroft
Facsimile No.: +1-617-574-7568
E-mail: tbancroft@goulstonstorrs.com

if to the Company: **SOGO INC.**
Floor 4, Willow House, Cricket Square, P.O. Box
2804, Grand Cayman KY1-1112, Cayman Islands
Email: xiaochuanwang@sohu-inc.com

with a copy to:
Goulston & Storrs PC
400 Atlantic Avenue
Boston, MA 02110

Attention: Timothy B. Bancroft
Facsimile No.: +1-617-574-7568
E-mail: tbancroft@goulstonstorrs.com

if to the Investor: **THL A21 Limited**
c/o Tencent Holdings Limited
Level 29, Three Pacific Place
1 Queen’s Road East
Wanchai, Hong Kong

Attention: Corporate Counsel

Telephone: +852 3148 5100 Ext: 68805
Facsimile: +852 2520 1148
E-mail: richardpu@tencent.com.hk

with a copy to:
Paul, Weiss, Rifkind, Wharton & Garrison
12th Floor, The Hong Kong Club Building,
3A Chater Road, Central,
Hong Kong

Attention: Jeanette K. Chan
Facsimile No.: +852 2840 4300
E-mail: jchan@paulweiss.com

if to Photon: **PHOTON GROUP LIMITED**
Floor 4, Willow House, Cricket Square, P.O. Box
2804, Grand Cayman KY1-1112, Cayman Islands
email: liwei@sohu-inc.com

or, as to each Party, at such other address or facsimile number as shall be designated by such Party in a notice to the other Party containing the new information in the same format as the information set out above and complying as to delivery with the terms of this Section 8.

8.2 Time of Delivery. Any Notice delivered:

- (a) by hand delivery shall be deemed to have been delivered on the date of actual delivery;
- (b) by email shall be deemed to have been delivered upon confirmation of delivery;
- (c) by prepaid express courier shall be deemed to have been delivered upon delivery by the courier; and
- (d) by facsimile shall be deemed to have been delivered on the day the transmission is sent (as long as the sender has a confirmation report specifying a facsimile, a facsimile number of the recipient, the number of pages sent and the date of the transmission).

8.3 Proof of Delivery. In proving delivery of any Notice it shall be sufficient:

- (a) in the case of delivery by hand delivery or courier, to prove that the Notice was properly addressed and delivered;
- (b) in the case of delivery by email, to prove that the transmission was confirmed as sent by the originating email account to the email address of the recipient, on the date specified; and
- (c) in the case of delivery by facsimile transmission, to prove that the transmission was confirmed as sent by the originating machine to the facsimile number of the recipient, on the date specified.

**SECTION 9
MISCELLANEOUS**

- 9.1 No Partnership. The Parties expressly do not intend hereby to form a partnership, either general or limited, under any jurisdiction's partnership law. The Parties do not intend to be partners one to another, or partners as to any third party, or create any fiduciary relationship among themselves, solely by virtue of the Investor's status as the holder of the Subscribed Shares.
- 9.2 Amendment. This Agreement may not be amended, modified or supplemented except by a written instrument executed by each of the Parties.
- 9.3 Waiver. No waiver of any provision of this Agreement shall be effective unless set forth in a written instrument signed by the Party waiving such provision. No failure or delay by a Party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by a Party of any breach by the other Party of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.
- 9.4 Entire Agreement. This Agreement (together with the other Basic Documents) constitutes the whole agreement between the Parties relating to the subject matter hereof and supersedes any prior agreements or understandings relating to such subject matter.
- 9.5 Severability. Each and every obligation under this Agreement shall be treated as a separate obligation and shall be severally enforceable as such and in the event of any obligation or obligations being or becoming unenforceable in whole or in part. To the extent that any provision or provisions of this Agreement are unenforceable, they shall be deemed to be deleted from this Agreement, and any such deletion shall not affect the enforceability of this Agreement as remain not so deleted.
- 9.6 Counterparts. This Agreement may be executed in one or more counterparts including counterparts transmitted by e-mail (with any attachments in PDF format) or facsimile, each of which shall be deemed an original, but all of which signed and taken together, shall constitute one document.
- 9.7 Transfer; Assignment. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the Parties. No Party may transfer or assign its rights or obligations under this Agreement without the prior written consent of each other Party, and any purported transfer or assignment without such consent shall be void ab initio and without effect.

**SECTION 10
GOVERNING LAW AND JURISDICTION**

- 10.1 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF NEW YORK WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW THEREOF THAT WOULD APPLY THE LAWS OF ANOTHER JURISDICTION.

10.2 Dispute Resolution.

- (a) Any dispute, controversy or claim arising out of or relating to this Agreement, or the interpretation, breach, termination or validity hereof, shall first be subject to resolution through consultation of the parties to such dispute, controversy or claim. Such consultation shall begin within seven (7) days after one Party hereto has delivered to the other Parties involved a written request for such consultation. If within thirty (30) days following the commencement of such consultation the dispute cannot be resolved, the dispute shall be submitted to arbitration upon the request of any Party with notice to the other Parties.
- (b) The arbitration shall be conducted in Hong Kong in accordance with the Arbitration Rules of the United Nations Commission on International Trade Law and the Hong Kong International Arbitration Centre ("HKIAC") Procedures for the Administration of International Arbitration in force at the date of this Agreement then in effect. There shall be three arbitrators. The complainant and the respondent to such dispute shall each select one arbitrator within thirty (30) days after giving or receiving the demand for arbitration. Such arbitrators shall be freely selected, and the Parties shall not be limited in their selection to any prescribed list. The Chairman of the HKIAC shall select the third arbitrator, who shall be qualified to practice law in Hong Kong. If either party to the arbitration does not appoint an arbitrator who has consented to participate within thirty (30) days after selection of the first arbitrator, the relevant appointment shall be made by the Chairman of the HKIAC.
- (c) The arbitration proceedings shall be conducted in English. The arbitration tribunal shall apply the Arbitration Rules of the HKIAC in effect at the time of the arbitration. However, if such rules are in conflict with the provisions of this Section 10.2, including the provisions concerning the appointment of arbitrators, the provisions of this Section 10.2 shall prevail.
- (d) The arbitrators shall decide any dispute submitted by the parties to the arbitration strictly in accordance with the substantive law of New York and shall not apply any other substantive law.
- (e) Each Party hereto shall cooperate with any party to the dispute in making full disclosure of and providing complete access to all information and documents requested by such party in connection with such arbitration proceedings, subject only to any confidentiality obligations binding on the Party receiving the request.

- (f) The award of the arbitration tribunal shall be final and binding upon the disputing parties, and any party to the dispute may apply to a court of competent jurisdiction for enforcement of such award.
- (g) Any party to the dispute shall be entitled to seek preliminary injunctive relief, if possible, from any court of competent jurisdiction pending the constitution of the arbitral tribunal.
- (h) The costs and expenses of the arbitration shall be borne equally by each Party to the dispute, and each Party shall pay its own fees, disbursements and other charges of its counsel.

[Remainder of this page intentionally left blank.]

IN WITNESS WHEREOF this Agreement has been executed on the day and year first above written.

SOGO INC.

By: _____
Name:
Title:

SOHU.COM (SEARCH) LIMITED

By: _____
Name:
Title:

THL A21 LIMITED

By: _____
Name:
Title:

PHOTON GROUP LIMITED

By: _____
Name:
Title:

[Signature Page to Subscription Agreement]

SCHEDULE 1

WARRANTIES

Definitions

In this Schedule 1, capitalized terms not otherwise defined have the meanings set forth in this Agreement, and the following terms have the meanings specified:

“Accounts” means collectively (i) the unaudited consolidated balance sheet of the Company as of December 31, 2012, and the unaudited statements of income and cash flows for the 12-month period ending on such date and the (ii) unaudited consolidated balance sheet of the Company as of June 30, 2013, and the unaudited statements of income and cash flows for the six-month period ending on such date.

“Accounts Receivable” means all accounts or notes receivable held by the Company and any security, claim, remedy or other right related to any of the foregoing.

“Accounts Date” means June 30, 2013.

“Assets” means all assets, rights and privileges of any nature and all goodwill associated therewith, including without limitation all rights in respect of Contracts, all Intellectual Property, Equipment, but excluding rights in respect of real property.

“Contracts” means all contracts, agreements, licenses, engagements, leases, financial instruments, purchase orders, commitments and other contractual arrangements, which are currently subsisting and effective and which have not been terminated or completed.

“Disclosed” means, in respect of any Warranty, disclosed in: (i) the Disclosure Schedule (including the schedules and appendices thereof), (ii) all matters contemplated in the Basic Documents, (iii) the public filings on the website of (1) the United States Securities and Exchange Commission or EDGAR (Electronic Data-Gathering, Analysis, and Retrieval) or (2) HKExnews, the disclosure site of the Stock Exchange of Hong Kong Limited, or (iv) all matters disclosed on the investor relations section of the websites of Sohu.com Inc. and Tencent ParentCo.

“Equipment” means all the plant and machinery, tools and equipment, vehicles and office furniture, computer equipment and other tangible assets.

“Government Approval” means any approval, authorization, release, order, or consent required to be obtained from, or any registration, qualification, designation, declaration, filing, notice, statement or other communication required to be filed with or delivered to, any Governmental Authority or any other Person, or any waiver of any of the foregoing.

“Government Entity” means any government (foreign or domestic) or any department, agency or instrumentality thereof, including any entity or enterprise owned or Controlled by a government, or a public international organization.

“Governmental Order” means any applicable order, ruling, decision, verdict, decree, writ, subpoena, mandate, precept, command, directive, consent, approval, award, judgment, injunction or other similar determination or finding by, before or under the supervision of any Governmental Authority.

“Intellectual Property” means all letters patent, trademarks, service marks, registered designs, domain names and utility models, copyrights, inventions, Know-how, brand names, database rights and business names and any similar rights situated in any country and the benefit (subject to the burden) of any of the foregoing (in each case whether registered or unregistered and including applications for the grant of any of the foregoing and the right to apply for any of the foregoing in any part of the world).

“Key Employee” with respect to the Group means the following individuals: each member of Sogou Management.

“Know-how” means all know-how, lists of customers or suppliers, trade secrets, technical processes or other confidential information relating thereto.

“Liabilities” means all indebtedness and other liabilities of any nature whatsoever, actual or contingent, and whether or not of a nature required to be disclosed in the accounts of the Group.

“Material Adverse Effect” affecting a person, means any effect that is materially adverse to the business, conditions (financial or otherwise), prospects, properties or assets of such person.

“Material Contracts” means any contract entered into by any Group Member (as defined in Part B of this Schedule 1) or to which any assets, equity interest or shares of any Group Member are subject to and that:

- (a) was entered into otherwise than in the ordinary course of business or on an arm’s length basis;
- (b) has a total contract value (including an amount being guaranteed, borrowed, loaned or potentially indemnified) greater than or equal to RMB 5,000,000;
- (c) involves obligations (contingent or otherwise) of, or payments in excess of, or equal to, RMB 10,000,000 individually or in the aggregate per annum or that has terms in excess of one (1) year;
- (d) restricts the ability of a Group Member to compete or to conduct or engage in any business or activity or in any territory;
- (e) relates to the sale, issuance, grant, exercise, award, purchase, repurchase or redemption of any Equity Securities;
- (f) involves any provisions providing exclusivity, “change in control”, “most favored nations”, rights of first refusal or first negotiation or similar rights, or grants a power of attorney, agency or similar authority;

- (g) on which the business of any Group Member is substantially dependent or which is otherwise material to the business of any Group Member;
- (h) involves indebtedness, an extension of credit, a guaranty or assumption of any obligation, or the grant of a Encumbrance in excess of or equal to RMB 10,000,000;
- (i) involves the lease, license, sale, use, disposition or acquisition of a material amount of assets or of a business,
- (j) involves the waiver, compromise, or settlement of any material dispute, claim, litigation or arbitration,
- (k) involves the ownership or lease of, title to, use of, or any leasehold or other interest in, any real or personal property (except for personal property leases involving payments of less than RMB 10,000,000 per annum),
- (l) involves the establishment, contribution to, or operation of a partnership, joint venture, franchise or involving a sharing of profits or losses, or any investment in, loan to or acquisition or sale of the securities, equity interests or assets of any Person,
- (m) is with any Related Party;
- (n) is with a Governmental Authority or state owned enterprise (except for any agreement or series of related agreements involving payments of less than RMB 10,000,000),
- (o) which are VIE Control Documents; or
- (p) is otherwise material to any Group Member.

“Principal Business” means the provision via personal computers and mobile devices of Internet search services, pinyin input module services, contextual advertising services, online games and web directory services, and such other businesses and activities and investments as may be approved by the shareholders of the Company from time to time in accordance with the Shareholders’ Agreement.

“Proceedings” means any claim, suit, action, arbitration, mediation, investigation, legal action, litigation, prosecution or other legal or administrative proceeding;

“Related Party” means (a) any shareholder who holds more than 10% of the Company and any shareholder of any other Group Member or Subsidiary thereof, (b) any director of any Group Member or any Subsidiary thereof, (c) any officer of any Group Member or any Subsidiary thereof, (d) any Relative of a shareholder, director or officer of any Group Member or any Subsidiary thereof, (e) any Person in which any shareholder or any director of any Group Member or any Subsidiary thereof has any interest, other than a passive shareholding of less than 5% in a publicly listed company, and (f) any other Affiliate of any Group Member or any Subsidiary thereof.

“Tax” means any and all applicable tax and taxes (including any value added tax or sales tax, business tax, income tax, stamp or other duty, levy, impost, charge, fee, deduction, or withholding of any nature) imposed, levied, collected or assessed by any Government Entity in the PRC or elsewhere and includes any penalties for late or non-payment of such tax or taxes.

“Tax Return” means all Cayman Islands, Hong Kong and China returns, declarations, claims for refunds, forms, statements, reports, schedules, information returns or similar statements or documents, and any amendments thereof (including any related or supporting information or schedule attached thereto) required to be filed (including electronically) with any Taxing Authority in connection with the determination, assessment or collection of any Tax or Taxes.

“Taxing Authority” means any Government Entity responsible for or having jurisdiction over the assessment, determination, collection or other imposition of Taxes.

“US GAAP” means generally accepted accounting principles in the United States of America.

“VIE Control Documents” means the suite of contracts between the wholly-owned subsidiary of the Company and the Company’s “variable interest entity” or the shareholders of such “variable interest entity”, including (1) Exclusive Technology Consulting and Service Agreement dated September 26, 2010 by and among Beijing Sogou Technology Development Co., Ltd. (北京搜狗科技发展有限公司), a wholly-foreign owned enterprise organized and existing under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company (“Sogou Technology”), and Beijing Sogou Information Services Co., Ltd. (北京搜狗信息服务有限公司) (“Sogou Information”), (2) Business Operation Agreement dated September 26, 2010 by and among Sogou Technology, Sogou Information and the shareholders of Sogou Information, (3) Exclusive Equity Interest Purchase Rights Agreement dated September 26, 2010 by and among Sogou Technology, Sogou Information and the shareholders of Sogou Information, (4) Share Pledge Agreement dated September 26, 2010 by and among Sogou Technology (as the pledgee), and the shareholders of Sogou information (as the pledgors), and (5) Loan Agreement dated September 26, 2010 by Sogou Technology and each of the shareholders of Sogou Information.

“Warrantor(s)’ Knowledge” means, (a) where the Investor is providing the Warranty, the actual knowledge of Ms. Sheila Liang, Assistant General Counsel of Tencent ParentCo, after reasonable enquiry, as of the date of this Agreement; and (b) where Sohu Search and the Company are providing the Warranty, the actual knowledge of Mr. Xiaochuan Wang, the Chief Executive Officer of the Company, after reasonable enquiry, as of the date of this Agreement.

Part A – Basic Warranties

All Basic Warranties set out in this Schedule 1 shall be qualified by the Disclosure Schedule prepared by the Party making such Warranty and all matters, actions, interpretations and definitions stipulated or contemplated by this Agreement

Each Party represents and warrants to the other Parties in the terms set forth below.

Fundamental Warranties

1. It is a company duly incorporated and validly existing and in good standing under the laws of its place of incorporation and has the full power, authority and legal right to own, lease and operate its properties and to carry on its business as now being conducted.
2. It has the full power, capacity and authority to enter into, execute and deliver this Agreement and the other Basic Documents and to consummate the Transaction, and its execution and delivery of this Agreement and the other Basic Documents and its performance of the Transaction have been duly authorized by all necessary corporate or other action.
3. Assuming the due authorization, execution and delivery by the other Parties, this Agreement and the other Basic Documents constitute its legal, valid and binding obligations, enforceable against it in accordance with their terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.
4. The execution, delivery and performance of this Agreement or the other Basic Documents by it will not: (i) violate any provision of its organizational documents; (ii) save as contemplated by this Agreement, require it to obtain any consent, approval or action of, or make any filing with or give any notice to, any Governmental Authority except for any consent, approval, action, filing, or notice the failure to so obtain would not prevent or delay the ability of such Party to consummate the Transaction; or (iii) violate any law or any order, writ, injunction or decree of any court, administrative agency or governmental body affecting such Party, except for any law, order, writ, injunction or decree, a violation of which would not prevent or delay the ability of such Party to consummate the Transaction.
5. It is not in or about to enter into receivership or liquidation and no petition has been presented for its winding up and there are no grounds on which such a petition could be based.
6. No Proceedings are pending or, to the Warrantor(s)' Knowledge, threatened against it on the date of this Agreement that may challenge, prevent, delay or otherwise interfere with, the consummation of the Transaction.

Non-Fundamental Warranties

7. The execution, delivery and performance of this Agreement or the other Basic Documents by it will not: (i) save as contemplated by this Agreement, require it to obtain any consent, approval or action of, or make any filing with or give any notice to, any third party (which is not a Governmental Authority) pursuant to any agreement to which it is a party or by which it is bound except for any consent, approval, action, filing, or notice the failure to so obtain would not prevent or delay the ability of such Party to consummate the Transaction or (ii) conflict with or result in any material breach or violation of any of the terms and conditions of, or constitute (or with notice or lapse of time or both constitute) a default under, any Material Contract to which it is a party or by which it is bound.

Part B – Company Specific Warranties

Sohu Search and the Company hereby jointly and severally represent and warrant to the Investor in the terms set forth below with respect to the Group.

All Company Specific Warranties set out in this Part B of Schedule 1 shall be qualified by the Disclosure Schedule prepared by the Warrantor(s) and all matters, actions, interpretations and definitions stipulated or contemplated by this Agreement.

Corporate Matters – Fundamental Warranties

1. Each Group Member has been duly incorporated, is validly existing and is in good standing under applicable law and has full power, authority and legal right to own its assets and carry on its business as set out in its respective business licenses, except where the failure to have such power and authority would not be material; and (b) no Group Member has stopped or suspended paying its debts as they fall due except where the failure to do so would not be material, is in or about to enter into receivership, liquidation or any other voluntary arrangement or compromise or other arrangement with its creditors in the context of impending receivership or liquidation and, to the Warrantor(s)' Knowledge, no petition has been presented for the winding up of any Group Member and there are no grounds on which such a petition could be based.
2. There are (a) no outstanding options, warrants, rights (including conversion or preemption rights) or agreements for the subscription or purchase from any Group Member of any shares in the equity capital or registered capital of any Group Member or any securities convertible into or ultimately exchangeable or exercisable for any shares equity capital or registered capital of any Group Member, and (b) no shares in the equity capital or registered capital of any Group Member, or other shares issuable by any Group Member, are subject to any preemptive rights, rights of first refusal or other rights to subscribe or purchase such shares (whether in favor of any Group Member or any other Person), pursuant to any agreement or commitment of any Group Member.
3. The execution, delivery and performance of this Agreement or the other Basic Documents by the Group Member will not:
 - (a) violate any provision of the organizational documents of any Group Member;
 - (b) except as contemplated by this Agreement, require any Group Member(s) to obtain any consent, approval or action of, or make any filing with or give any notice to, any Governmental Authority, except for any consent, approval, action, filing, or notice the failure to so obtain would not prevent or delay the ability of any Group Member(s) to consummate the Transaction or any consent, approval, action, filing or notice that does not relate to a Group Member; or

- (c) violate any law or any rule or regulation of any administrative agency or governmental body or any order, writ, injunction or decree of any court, administrative agency or governmental body affecting a Group Member, except for any law, rule, regulation, order, writ, injunction or decree, a violation of which would not prevent or delay the ability of any Group Member(s) to consummate the Transaction.
4. Each Group Member has complied with all relevant corporate procedures which are required under the laws of the relevant jurisdiction for the purposes of maintaining a corporate entity in such relevant jurisdiction, including without limitation, the submission of all necessary filings and notices to any Government Authorities, except where the failure to comply would not be material.
 5. Part B of Schedule 2 sets out a true, complete and correct illustration in all material respects of the corporate structure of the Group and a true, complete and correct description in all material respects of the share capital and ownership (on a fully diluted basis) of the Group as of the date of this Agreement before Completion. Part C of Schedule 2 sets out a true, complete and correct illustration in all material respects of the corporate structure of the Group and a true, complete and correct description in all material respects of the share capital and ownership (on a fully diluted basis) of the Group as of the date of this Agreement after Completion. No Group Member has any direct or indirect equity interest in any other entity as of the date of this Agreement before and after Completion other than as set out in Part B of Schedule 2 or Part C of Schedule 2 (as applicable).
 6. The descriptions of the Equity Securities and the other descriptions of the Company, BVICo, HKCo-1, HKCo-2, WFOE-1, WFOE-2 and Sogou OpCo set forth in Part A of Schedule 2 to this Agreement are true and accurate, and such Equity Securities, have been duly authorized, validly issued, fully paid and non-assessable and, in the case of a Group Member other than the Company, are free from any and all Encumbrances.
 7. Upon Completion there shall not be any authorized or outstanding Equity Securities of the Company except those shares as set out in Part A of Schedule 2.
 8. All presently outstanding Equity Securities of each Group Member have been duly and validly issued in compliance with all applicable laws. All Equity Securities of each Group Member (other than the Company) are free and clear of any Encumbrances. Except as required for the Transaction, there are no (i) resolutions pending to increase the share capital of any Group Member or cause the liquidation, winding up, or dissolution of any Group Member or (ii) dividends which have accrued or been declared but are unpaid by any Group Member.
 9. The Subscribed Shares will have the rights as stated in the Restated Charter, when issued and delivered in accordance with the terms of this Agreement, will be duly and validly issued, fully paid and non assessable, and will be free from any Encumbrances.

Corporate Matters – Non-Fundamental Warranties

10. There are no agreements outstanding which grant the right to any person to require the creation of any Encumbrance over any part of the equity interest of any Group Member other than the Company and, to the Warrantor(s)' Knowledge, there are no agreements outstanding which grant the right to any person to require the creation of any Encumbrance over any part of the equity interest of the Company.
11. The execution, delivery and performance of this Agreement or the other Basic Documents by the Group Member will not:
 - (a) except as contemplated by this Agreement, require any Group Member(s) to obtain any consent, approval or action of, or make any filing with or give any notice to, any third party (that is not a Governmental Authority) pursuant to any agreement to which a Group Member is a party or by which a Group Member is bound, except for any consent, approval, action, filing, or notice the failure to so obtain would not prevent or delay the ability of any Group Member(s) to consummate the Transaction or any consent, approval, action, filing or notice that does not relate to a Group Member; or
 - (b) conflict with or result in any material breach or violation of any of the terms and conditions of, or constitute (or with notice or lapse of time or both constitute) a default under, any agreement to which a Group Member is a party or by which a Group Member is bound (except for any breach or violation which would not prevent or delay the ability of any Group Member(s) to consummate the Transaction).
12. All available registers and the minute books of directors' and members' meetings of each Group Member up to and including August 2013 are up to date, and contain true, and accurate records in all material respects of all matters required to be dealt with therein and under the laws of the relevant jurisdiction.
13. Except for HKCo-1, HKCo-2, WFOE-1, WFOE-2 and Sogou OpCo, the Company does not own any Equity Securities of, or other direct or indirect interest of any kind in, any other Person, and WFOE-1 or WFOE-2 do not own any Equity Securities of, or other direct or indirect interest of any kind in, any other Person (except for Sogou OpCo in relation to WFOE-1).
14. No Group Member's Contracts relating to its Equity Securities provides for acceleration of vesting or lapse of a repurchase right or other changes in the vesting provisions or other terms of such agreement or understanding upon the occurrence of any event or combination of events.
15. Chor Woon Carol YU holds a proxy (the "Proxy") permitting her to vote on behalf of all current and former employees of the Company who hold ordinary shares in the share capital of the Company, other than the members of Sogou Management, and the Proxy is valid, legal, binding and remains effective on the date hereof. The terms of the Proxy are as set out in the forms as Disclosed by the Company and Sohu Search to the Investor.

Taxation

16. Each Group Member has on a timely basis made all material returns for taxation purposes which it is obliged to make and all such returns and other information supplied to the relevant tax authority in the relevant jurisdiction are true, accurate and complete in all material respects and have been prepared in accordance with all applicable laws.
17. There are no outstanding claims, assessments (including penalty or interest claims) in respect of taxation except for claims or assessments which, individually or in the aggregate, would not be material.
18. The Group is not subject to any dispute with the relevant tax authority of any jurisdiction, except for disputes which, individually or in the aggregate, would not be material.
19. Each Group Member has paid all taxes for which it is liable from the date of its incorporation onwards on the relevant due dates, except for taxes as to which failure to pay would not, individually or in the aggregate, reasonably be likely to have a material effect.

Assets and Properties

20. Each Group Member has good and marketable title, free and clear of all Encumbrances, to all of the owned properties and assets, real and personal, tangible or intangible, that are reflected as owned by such Group Member on the Accounts (the "Assets"). The Assets are not affected by, nor the subject of, any disputes, except for any disputes which would not, individually or in the aggregate, reasonably be likely to have a Material Adverse Effect.

Contracts and Transactions

21. Each Material Contract of the Group is valid and binding on the Group Member and, to the Warrantor(s)' Knowledge, on the other party or parties thereto, and has been duly authorized, executed and delivered by the Group Member and by each other party thereto and constitutes the valid and binding obligation of each party thereto, enforceable against each party thereto in accordance with its terms. Each Material Contract has been duly authorized, executed and delivered by such Group Member, constitutes the valid and binding obligation of such Group Member enforceable against it and to the Warrantor(s)' Knowledge, constitutes the valid and binding obligation of such other party enforceable against such other party in accordance with its terms, except where such enforceability may be limited by applicable bankruptcy, insolvency reorganization, moratorium or similar laws affecting creditors' rights generally. As of the date of this Agreement, with respect to the Material Contracts, no Group Member has received notice of any uncured or unwaived material default by the Group or, to the Warrantor(s)' Knowledge, by any other party or parties thereto.

22. No Group Member is in the course of negotiating any Contract that, if entered into, would be a Material Contract. No Group Member is a party to any contract made orally that would be a Material Contract or that is otherwise material to the Group, taken as a whole.
23. None of Material Contracts to which any Group Member is a party or by which it is bound contains any provisions whereby the execution and / or performance of this Agreement and / or a change in the ownership, control or management of the Group will cause a termination or a default under such agreements.
24. Except as contemplated under the Transaction and under the Basic Documents, there are no Contracts, understandings, transactions or proposed transactions between any Group Member on the one hand and any Related Party on the other hand. No Related Party is indebted to any Group Member, nor is such Group Member indebted (or committed to make loans or extend or guarantee credit) to any Related Party.
25. No Group Member has retained and to the Warrantor(s)' Knowledge, no other Person has retained on behalf of any Group Member, any investment banker, broker, or finder and there are no fees or charges due or payable to third parties in connection with the Transaction.
26. To the Warrantor(s)' Knowledge, each Group Member has carried on its business in compliance with all applicable laws and regulations in the relevant jurisdictions in all material respects. To the Warrantor(s)' Knowledge, there are no pending or on-going inquiries or investigations by any Governmental Authority in respect of any Group Member which may have a material adverse effect and no such inquiry or investigations have been threatened.
27. There are no Contracts which restrict the ability of any Group Member to conduct any type of business anywhere in the world.

Licenses and Compliance with laws

28. Each Group Member has obtained all licenses, approvals, permits, consents and registrations necessary for the carrying on of its business as currently conducted (including the applicable Governmental Authority covering the franchise areas in which the respective Group Member operates internet search engine services) except where the failure to obtain such licenses, approvals, permits, consents or registrations would not have a Material Adverse Effect on such Group Member. True and accurate copies of all material licenses of the Group have been made available for inspection and all such material licenses are in full force and effect.
29. No approval from any Governmental Authority is required on the part of any Group Member on or prior to Completion with its valid execution, delivery or performance of the Transaction or the Basic Documents (only to the extent such Group Member is a party to a Basic Document).

30. Each Group Member has obtained any and all Government Approvals required to be obtained on or prior to the Completion and have fulfilled any and all filings and registration requirements with applicable Governmental Authorities necessary in respect of the Group Members and their operations. All such filings and registrations with applicable Governmental Authorities required in respect of the Group Members, including but not limited to the registrations with the following Governmental Authorities of the PRC: the Ministry of Commerce (or any predecessors), the State Administration of Industry and Commerce, the State Administration of Foreign Exchange, the Ministry of Industry and Information Technology, the Ministry of Culture, the General Administration for Press and Publication, the State Administration for Radio, Film and Television, tax bureau, customs authorities and the local counterparts of each of such Governmental Authorities, as applicable, have been duly completed in accordance with applicable laws. No Group Member has received any letter or notice from any applicable Governmental Authorities notifying it of the revocation of any Government Approval issued to it or the need for compliance or remedial actions in respect of the activities carried out directly or indirectly by any Group Member. Each Group Member has been conducting its business activities within the permitted scope of business or is otherwise operating its businesses in material compliance with all relevant laws and Governmental Orders. No Group Member has reason to believe that any authorization of any Governmental Authority, license or permit requisite for the conduct of any part of its business which is subject to periodic renewal will not be granted or renewed by the relevant Governmental Authorities.
31. Each entity within the Group incorporated within China ("Relevant PRC Subsidiary") has obtained any material certificates, approvals, permits, licenses, registration receipts and any similar authority necessary under PRC laws to conduct foreign exchange transactions (collectively, the "Foreign Exchange Authorization") as now being conducted by it, and believes it can obtain, without undue burden or expense, any such Foreign Exchange Authorization for the conduct of foreign exchange transactions as planned to be conducted. All existing Foreign Exchange Authorizations held by each Relevant PRC Subsidiary are valid, and no Relevant PRC Subsidiary is in default in any material respect under any such Foreign Exchange Authorization.
32. Each Group Member has been and is in compliance with all Governmental Orders (including without limitation all laws of the PRC with respect to mergers, acquisitions, foreign investment and foreign exchange transactions) in all material respects that are applicable to it or to the conduct or operation of its business or the ownership or use of any of its assets or properties.

Intellectual Property Rights

33. The Group owns or has the right to use all patents, copyrights, trademarks, designs, business names or other registrable or unregistrable intellectual property rights (the "Intellectual Property Rights") used in connection with its business. Each Group Member has all Intellectual Property Rights required for its business as currently conducted and as contemplated to be conducted.

34. None of the Intellectual Property of any Group Member has been wrongfully or unlawfully acquired by it.
35. True and accurate copies of all licenses granted to or by each Group Member in respect of any Intellectual Property Rights (the "IP Licenses") which are Material Contracts have been provided by the Warrantor(s) to the other Parties. Except as provided in the IP Licenses, no Group Member is obligated to pay any royalties or other payments to any Person in respect of Intellectual Property used by the Group. No Group Member is in breach of any IP License or of any agreement under which any confidential business information was or is to be made available to it.
36. All rights in all Intellectual Property owned or otherwise required for the business of each Group Member as currently conducted or contemplated to be conducted are vested in or validly granted to such Group Member and except as Disclosed in relation to paragraph 35 above are not subject to any limit as to time or any other limitation, right of termination (including on any change in the underlying ownership or control of any Group Member) or restriction and all renewal fees and steps required for their maintenance or protection have been paid and taken.
37. No Group Member is a party to any confidentiality or other agreement or subject to any duty which restricts the free use or disclosure, or requires disclosure, of business information owned by or required for its business.
38. No Group Member has granted, nor is obliged to grant, any license, sub-license or assignment in respect of any Intellectual Property owned or otherwise required for its business, and has not disclosed nor is obliged to disclose any Know-how required for its business to any Person, other than its employees for the purpose of carrying on its business. There are no restrictions on the right of any Group Member to license or sub-license any Intellectual Property owned by it.
39. (a) To the Warrantor(s)' Knowledge, there has been no actual or alleged material infringement of any of Intellectual Property Rights of or by any Group Member; and (b) the Group's Intellectual Property, and the validity or subsistence of the Group's right, title and interest therein, is not subject of any current, pending or, to the Warrantor(s)' Knowledge, threatened challenge, claim or proceedings, including for opposition, cancellation, revocation or rectification, and has not during the period of one year prior to Completion been the subject of any material challenge, claim or proceeding, and, to the Warrantor(s)' Knowledge, there are no facts or matters which might give rise to any such challenge, claim or proceedings.
40. Each Group Member has taken all reasonable steps open to it to preserve its Intellectual Property. All renewal fees regarding its Intellectual Property due on or before Completion have been paid in full, except where the failure to pay such fees is not material.

41. To the Warrantor(s)' Knowledge, the carrying on of the Group's business or businesses as presently constituted does not, save as set forth in the Disclosure Schedule, require any licenses or consents from, or the making of royalty or similar payments to, any third party in relation to such third party's Intellectual Property. To the Warrantor(s)' Knowledge, no Group Member uses or needs to use any processes and is not engaged in any activities which infringe any Intellectual Property belonging to any third party where such infringement is in respect of a claim for an amount of RMB 10 million or greater. To the Warrantor(s)' Knowledge, no Group Member has within the period of one year preceding Completion used any Intellectual Property in a manner which has infringed or infringes the Intellectual Property rights of a third party where such infringement is in respect of a claim for an amount of RMB 10 million or greater.
42. No Group Member has applications to register any Intellectual Property which are not being pursued with all reasonable due diligence and speed.
43. All employees of the Group have entered into a standard confidentiality and non-competition agreements. To the Warrantor(s)' Knowledge, none of these employees are in breach of such agreements. To Warrantor(s)' Knowledge, none of the Group's employees is obligated under any Contract, or subject to any judgment, decree or order of any Governmental Authority, that would interfere with the use of his or her best efforts to promote the interests of the Group or that would conflict with the Group's businesses as proposed to be conducted. Neither the execution or delivery of this Agreement or any Basic Document, nor the carrying on of the Group's businesses by the Group's employees, nor the conduct of the Group's businesses as proposed, will, to the Warrantor(s)' Knowledge, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees is now obligated.

Real Property

44. The real properties of the Group (together, the "Real Property") comprise all the land, buildings and premises (as well as the fixtures attached thereto) currently owned, occupied or used by the Group or with respect to which the Group has any estate, interest, right or title. The Group has proper legal title to the land use rights and building ownership rights with respect to the Real Property (including possession of the land use rights certificates and building ownerships certificates) and is, subject to compliance with all applicable laws of Hong Kong and the PRC, entitled to transfer, sell, mortgage or otherwise dispose of the Real Property and there are no occupancy rights or Encumbrances in favor of third parties affecting it.
45. All leases pursuant to which a Group Member, as lessee, leases real or personal property are valid and binding on such Group Member and, to the Warrantor(s)' Knowledge, on the other parties thereto and neither the Group Member nor, to the Warrantor(s)' Knowledge, any other party thereto, is in material default thereunder. There are no leases, subleases or licenses granting to any person other than a Group Member any right to the possession, use, occupancy or enjoyment of the real property owned or leased by the Group, or any portion thereof, other than as made in the normal course of the Group's business.

Accounts

46. The Company has made available or delivered to the Investors copies of the Accounts. The Accounts (i) have been prepared in accordance with the books and records of the Group and in accordance with US GAAP, applied on a consistent basis, and (ii) fairly present, in all material respects, the financial condition and position of the Group as of the dates indicated therein and the results of operations and cash flows of the Group for the periods indicated therein.
47. No Group Member has any obligation or liability other than: (i) liabilities reflected or reserved against in the Accounts, (ii) liabilities incurred in the ordinary course of business consistent with past practice since the Accounts Date, (iii) liabilities incurred pursuant to Contracts to which any Group Member is a party, (iv) liabilities with respect to or relating to any matters which are disclosed anywhere in the Disclosure Schedule of the Company, and (v) liabilities which are not, individually or in the aggregate, material in amount.
48. The Accounts Receivable reflected on the Accounts and the Accounts Receivable arising after the date thereof have arisen from bona fide transactions entered into by the Company involving the sale of goods or the rendering of services in the ordinary course of business consistent with past practice. The reserve for bad debts shown in the Accounts or, with respect to Accounts Receivable arising after the Accounts Date, on the accounting records of the Principal Business have been determined in accordance with US GAAP, consistently applied, subject to normal year-end adjustments and the absence of disclosures normally made in footnotes.
49. Since the Accounts Date, the Group has operated its business in the ordinary course consistent with its past practice, there has not been any Material Adverse Effect or any material change in the way the Group conducts its business, no Group Member has entered into any transaction outside of the ordinary course of business consistent with its past practice, and there has not been by or with respect to any Group Member:
 - (a) any purchase, acquisition, sale, lease, disposal of or other transfer of any assets that are individually or in the aggregate material to its business, whether tangible or intangible, other than the purchase or sale of inventory in the ordinary course of business consistent with its past practice, and no acquisition (by merger, consolidation or other combination, or acquisition of stock or assets, or otherwise) of any business or other Person or division thereof;

- (b) any waiver, termination, settlement or compromise of a valuable right or of a debt;
- (c) any incurrence, creation, assumption, repayment, satisfaction, or discharge of (i) any material Encumbrance or (ii) any indebtedness or guarantee, or the making of any loan or advance (other than reasonable and normal advances to employees for bona fide expenses that are incurred in the ordinary course of business consistent with its past practice), or the making of any material investment or capital contribution (which shall include, without limitation, any investment or capital contribution in an amount greater than or equal to (in any single or series of related transactions) RMB 10,000,000);
- (d) any amendment to any Material Contract, any entering of any new Material Contract, or any termination of any Contract that would have been a Material Contract if in effect on the date hereof, or any amendment to any constitutive document of any Group Member, or any indication of any intention to amend, enter into or terminate any Material Contract, or any amendment to or waiver under any constitutive document of any Group Member;
- (e) any employment, termination of employment, or material change in any compensation arrangement or agreement with any Key Employee of any Group Member (which shall include, without limitation, any change by more than ten percent (10%) of the aggregate annual compensation due to any Key Employee);
- (f) any declaration, setting aside or payment or other distribution in respect of any Equity Securities, or any direct or indirect redemption, purchase or other acquisition of any Equity Securities;
- (g) any material damage, destruction or loss, whether or not covered by insurance, adversely affecting the assets, properties, financial condition, operation or business of any Group Member (which shall include, without limitation, any damage, destruction or loss in an aggregate amount greater than or equal to RMB 10,000,000);
- (h) any material change in accounting methods or practices or any revaluation of any of its assets;
- (i) (except in the ordinary course of business consistent with its past practice, entry into any closing agreement in respect of material Taxes, settlement of any claim or assessment in respect of any material Taxes, or consent to any extension or waiver of the limitation period applicable to any claim or assessment in respect of any material Taxes, entry or change of any material Tax election, change of any method of accounting resulting in a material amount of additional Tax or filing of any material amended Tax Return;
- (j) any commencement or settlement of any material Proceedings; or
- (k) any agreement or commitment to do any of the things described in this paragraph 49 of Part B of Schedule 1.

Insurance

50. All Assets of the Group that are of an insurable nature have at all times been and are insured in commercially reasonable amounts. Nothing has been done or omitted to be done by or on behalf of any Group Member which would make any policy of insurance void or voidable or enable the insurers to avoid the same; there is no claim outstanding under any such policy; and there are no facts or circumstances likely to give rise to such a claim or result in an increased rate of premium. All premiums due and payable by any member of the Group in respect of the above insurances have been paid in full.
51. No Group Member has suffered any uninsured losses or waived any rights or claims of material or substantial value with respect to any policy of insurance or allowed any insurance to lapse.
52. No claim under any policy of insurance taken out in connection with the business or assets of any Group Member is outstanding and there are no facts or circumstances likely to give rise to such a claim.

Employee and Labor Relations

53. Each Group Member has conducted, and conducts, the Principal Business with respect to its employees in a manner that complies, in all material respects, with all applicable laws relating to employment and employment practices, terms and conditions of employment, immigration and wages and hours, including any such laws respecting employment discrimination, employee classification, workers' compensation family and medical leave, and occupational safety and health and workers' compensation requirements; no proceedings are pending or threatened with respect to the employees under such laws or the employment of the employees, including breach of contract, wrongful termination, intentional infliction of emotional distress, invasion of privacy or other torts or workers' compensation, and there have been no such proceedings during the last two years. There are no current employee claims.
54. There has not been in the last two years any strike, slowdown, work stoppage or lockout involving the Principal Business. There are no current employee claims.
55. No Group Member is, or has been during the last two years, a party to or bound by any collective bargaining agreement. There are no labor unions or other organizations representing, purporting to represent or attempting to represent any of the employees and there has not been in the last two years any such representation or attempted representation.
56. Except as Disclosed, no Group Member is a party to, or has issued any shares or options over any shares to any of its employees pursuant to, any plan providing incentives to any of its employees involving securities or which are securities based, in which any employees can participate, including share option plans, long term incentive plans, restricted share plans and share incentive plans.

57. The Disclosure Schedule prepared by the Group identifies all material employee benefit arrangements.

Litigation

58. No Group Member is involved whether as plaintiff or defendant or otherwise in any civil, criminal or arbitration proceedings (apart from debt collecting in the ordinary course of business) or in any Proceedings before any tribunal and no such Proceedings are threatened in writing or pending, except for matters that are not material.
59. There is no unsatisfied judgment, court order or tribunal or arbitral award outstanding against any Group Member and no distress, execution or process has been levied on any part of its business or assets.

Indebtedness

60. Details of the Group's indebtedness (other than payables incurred in the ordinary course of business) as at the end of the calendar month preceding the date of this Agreement are set out in the Disclosure Schedule.

Part C – Investor Specific Warranties

The Investor represents and warrants to Sohu Search and the Company that the representations and warranties set forth in this Part C of Schedule 1 are true as of the date hereof:

Intellectual Property Rights

1. Tencent ParentCo owns or has the right to use the Contributed IP.
2. None of the Contributed IP has been wrongfully or unlawfully acquired by Tencent ParentCo.
3. True and accurate copies of all licenses in respect of the Contributed IP (the “Contributed IP Licenses”) have been provided by the Investor to the Company and Sohu Search. Except as provided in the Contributed IP Licenses, Tencent ParentCo is not obligated to pay any royalties or other payments to any Person in respect of the Contributed IP. Tencent ParentCo is not in breach of any of the Contributed IP Licenses.
4. All rights in respect of the Contributed IP are owned and vested in or validly granted to Tencent ParentCo and except as Disclosed in relation to paragraph 3 above are not subject to any limit as to time or any other limitation, right of termination (including on any change in the underlying ownership or control of Tencent ParentCo) or restriction and all renewal fees and steps required for their maintenance or protection have been paid and taken.
5. (a) To the Warrantor(s)’ Knowledge, there has been no actual or alleged material infringement of any of rights in respect of the Contributed IP of or by Tencent ParentCo; and (b) the Contributed IP, and the validity or subsistence of Tencent ParentCo ’s right, title and interest therein, is not subject of any current, pending or, to the Warrantor(s)’ Knowledge, threatened challenge, claim or proceedings, including for opposition, cancellation, revocation or rectification, and has not during the period of one year prior to Completion been the subject of any material challenge, claim or proceeding, and, to the Warrantor(s)’ Knowledge, there are no facts or matters which might give rise to any such challenge, claim or proceedings.
6. Tencent ParentCo has taken all reasonable steps open to it to preserve its rights in relation to the Contributed IP. All renewal fees regarding the Contributed IP due on or before Completion have been paid in full, except where the failure to pay such fees is not material.

Structure

7. Part A of Schedule 2 (in relation to the Investor only) sets out a true, complete and correct illustration of the corporate details of the Investor and a true, complete and correct description of the share capital and ownership of the Investor as of the date of this Agreement.

Subscribed Shares

8. The Subscribed Shares to be acquired pursuant to this Agreement will be acquired by the Investor for investment for the Investor's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and the Investor has no present intention of selling, granting any participation in, or otherwise distributing the same.
9. The Investor understands that the Subscribed Shares are characterized as "restricted securities" under U.S. federal securities laws in as much as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act") only in certain limited circumstances. The Investor further represents that it is familiar with Rule 144 under the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act.
10. The Investor is (i) subscribing for the Subscribed Shares outside the United States in reliance on an exemption from the registration requirements of U.S. federal and state securities laws under Regulation S under the Act or (ii) an "accredited investor" within the meaning of Rule 501 of Regulation D under the Act, as presently in effect, under the Act.
11. There are no restrictions under the laws of the jurisdiction where the Investor is incorporated that would prevent the Investor from subscribing to the Subscribed Shares.

SHAREHOLDERS' AGREEMENT (this "Agreement") made on the 16th day of September, 2013

AMONG:

- (1) **SOGOU INC.**, an exempted company with limited liability incorporated under the laws of the Cayman Islands with its office at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands (the "Company");
- (2) **SOHU.COM (SEARCH) LIMITED**, an exempted company with limited liability incorporated under the laws of the Cayman Islands with its registered office at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands ("Sohu Search");
- (3) **PHOTON GROUP LIMITED**, a company incorporated under laws of the British Virgin Islands with its address at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Island ("Photon");
- (4) **THL A21 LIMITED**, an exempted company with limited liability under the laws of the British Virgin Islands whose registered office is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands ("Tencent");
- (5) **WANG XIAOCHUAN** (王肖川), a citizen of the PRC, and his affiliated company, Rose Shadow Company Limited, an exempted company with limited liability under the laws of the British Virgin Islands (together, "WXC"); and
- (6) **OTHER MEMBERS OF SOGOU MANAGEMENT** and their respective affiliated companies as set out in Schedule 1 hereto (together with WXC, collectively, "Sogou Management" and each, a "Member of Sogou Management").

RECITALS:

- (A) Pursuant to a subscription agreement entered into among Sohu Search, Tencent and the Company dated the date hereof (the "Subscription Agreement"), the Company has issued to Tencent, and Tencent has subscribed for, certain Class B Ordinary Shares and certain Series B Preferred Shares (each as defined below).
- (B) The Parties wish to provide for certain matters relating to the transfer of shares of the Company and the management and operation of the Company.

SECTION 1
INTERPRETATION

1.1 Definitions. In this Agreement, unless the context otherwise requires the following words and expressions have the following meanings:

“Affiliate” “of a Person (the “Subject Person”) means (a) in the case of a Person other than a natural person, any other Person that directly or indirectly Controls, is Controlled by or is under common Control with the Subject Person and (b) in the case of a natural person, any other Person that is directly or indirectly Controlled by the Subject Person or is a Relative of the Subject Person; provided that the Company and its Subsidiaries shall be deemed not to be Affiliates of any Shareholder.

“Basic Documents” has the meaning set out in the Subscription Agreement.

“Board” means the board of Directors of the Company.

“Business Day” means any day other than Saturday, Sunday or other day on which commercial banks located in the Cayman Islands, the PRC or Hong Kong are authorized or required by law or executive order to be closed and on which no tropical cyclone warning no. 8 or above and no “black” rainstorm warning signal is hoisted in Hong Kong at any time between 8:00 a.m. and 6:00 p.m. Hong Kong time.

“Change of Control” of a Person (the “Subject Person”) means any consolidation or merger of the Subject Person with or into any other Person or the acquisition of Equity Securities in the Subject Person, after which any Person who has Control of the Subject Person ceases to have any direct or indirect Control immediately after such consolidation, merger or acquisition.

“Charter Documents” means the Fifth Amended and Restated Memorandum and Second Amended and Restated Articles of Association of the Company adopted by the Company on the date hereof.

“Class A Ordinary Shares” means the class A ordinary shares, par value US\$0.001 per share, in the share capital of the Company, with the rights set forth in the Charter Documents.

“Class B Ordinary Shares” means the class B ordinary shares, par value US\$0.001 per share, in the share capital of the Company, with the rights set forth in the Charter Documents.

“Companies Act” means the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, modified or re-enacted from time to time.

“Control” of a Person means (a) ownership of more than 50% of the shares in issue or other equity interests or registered capital of such Person or (b) the power to direct the management or policies of such Person, whether through the ownership of more than 50% of the voting power of such Person, through the power to appoint a majority of the members of the board of directors or similar governing body of such Person, through contractual arrangements or otherwise.

“Director” means a director of the Company (including any duly appointed alternate director).

“Encumbrance” means (a) any mortgage, charge (whether fixed or floating), pledge, lien, hypothecation, assignment, deed of trust, title retention, security interest or other encumbrance of any kind securing, or conferring any priority of payment in respect of, any obligation of any person, including without limitation any right granted by a transaction which, in legal terms, is not the granting of security but which has an economic or financial effect similar to the granting of security under applicable law, (b) any lease, sub-lease, occupancy agreement, easement or covenant granting a right of use or occupancy to any person, (c) any proxy, power of attorney, voting trust agreement, interest, option, right of first offer, negotiation or refusal or transfer restriction in favor of any person and (d) any adverse claim as to title, possession or use.

“Equity Securities” means, with respect to any person, such person’s equity capital, membership interests, partnership interests, registered capital, joint venture or other ownership interests (including, without limitation, in the case of the Company, Shares) or any options, warrants or other securities that are directly or indirectly convertible into, or exercisable or exchangeable for, such equity capital, membership interests, partnership interests, registered capital, joint venture or other ownership interests (whether or not such derivative securities are issued by such person).

“Financial Year” means the financial year of the Company, which ends on December 31.

“GAAP” means generally accepted accounting principles of the relevant jurisdiction of incorporation.

“Group” means collectively the Company and its Subsidiaries, and “Group Company” means any of them.

“IPO” means an initial public offering of Shares on an internationally recognized stock exchange.

“Liquidation” means the voluntary or involuntary liquidation under applicable bankruptcy or reorganization legislation, or the dissolution or winding up of the Company.

“Liquidation Event” means:

(a) a voluntary or involuntary liquidation, dissolution or winding up of the Company;

- (b) a merger or consolidation, in which (i) the Company is a constituent party or (ii) another Group Company is a constituent party and the Company issues shares pursuant to such merger or consolidation, except any such merger or consolidation involving the Company or another Group Company in which the shares of the Company outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for shares that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the share capital of (1) the surviving or resulting corporation or (2) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation (provided that all Ordinary Shares issuable upon exercise of options outstanding immediately prior to such merger or consolidation or upon conversion of convertible securities outstanding immediately prior to such merger or consolidation shall be deemed to be outstanding immediately prior to such merger or consolidation and, if applicable, converted or exchanged in such merger or consolidation on the same terms as the actual outstanding Ordinary Shares are converted or exchanged);
- (c) the sale, lease, transfer, license or other disposition, in a single transaction or series of related transactions, by the Company and/or any other Group Company of all or substantially all the assets of the Company and the other Group Companies taken as a whole, or the sale or disposition (whether by merger or otherwise) of one or more Group Companies if substantially all of the assets of the Company and the other Group Companies taken as a whole are held by such Group Company or Group Companies, except where such sale, lease, transfer, license or other disposition is to a wholly owned Subsidiary of the Company. For the avoidance of doubt, the license to any Person other than a Group Company of any technologies or intellectual properties of the Company or any of the other Group Companies that (i) is necessary for the conduct of the business of the Group Companies and (ii) is not in ordinary course of business and consistent with past practice will be deemed a "Liquidation Event"; or
- (d) the sale, exchange or transfer by the Shareholders of direct or indirect voting control of the Company or of any other material Group Companies, in a single transaction or series of related transactions, provided, that the sale, exchange or transfer by the holders of voting securities of any Shareholder of voting control of such Shareholder will not be considered a Liquidation Event.

"Majority Series A Preferred Shareholders" shall mean the Preferred Shareholders that hold more than 50% of the then outstanding Series A Preferred Shares.

"Majority Series B Preferred Shareholders" shall mean the Preferred Shareholders that hold more than 50% of the then outstanding Series B Preferred Shares.

“Ordinary Shares” means Class A Ordinary Shares and Class B Ordinary Shares.

“Party” or “Parties” means any signatory or the signatories to this Agreement and any Person or Persons who subsequently becomes a party to this Agreement as provided herein.

“Person” means any natural person, firm, company, governmental authority, joint venture, partnership, association or other entity (whether or not having separate legal personality).

“PRC” means the People’s Republic of China, and for purposes of this Agreement, excluding Hong Kong and Macau Special Administrative Regions of the PRC and Taiwan.

“Preferred Shares” means Series A Preferred Shares and Series B Preferred Shares.

“Principal Business” means the principal business of the Company, which shall be the provision via personal computers and mobile devices of Internet search services, pinyin input module services, contextual advertising services, online games and web directory services, and such other businesses and activities and investments as may be approved by the Shareholders from time to time in accordance with Section 4.6.

“Pro Rata Share” means, with respect to any Shareholder, the proportion that the number of Shares held by such Shareholder on an as-converted basis bears to the aggregate number of Shares held by all Shareholders who are participating in the relevant transaction, in each case on an as converted but non-diluted basis.

“Regulatory Approvals” means all approvals, permissions, authorizations, consents and notifications from any governmental, regulatory or departmental authority.

“Related Party” means (a) any shareholder of the Company or any Subsidiary who (i) holds an executive managerial position in the Company or any Subsidiary or (ii) holds more than 1% of the Shares on a non-diluted basis (a “Relevant Shareholder”), (b) any director of the Company or any Subsidiary, (c) any officer of the Company or any Subsidiary, (d) any Relative of a Relevant Shareholder, director or officer of the Company or any Subsidiary, (e) any Person in which any Relevant Shareholder or any director of the Company or any Subsidiary has any interest, other than a passive shareholding of less than 5% in a publicly listed company, and (f) any other Affiliate of the Company or any Subsidiary.

“Relative” of a natural person means any spouse, parent, grandparent, child, grandchild, sibling, uncle, aunt, nephew, niece or great-grandparent of such person and his or her spouse (if any).

“Series A Preferred Shares” means the series A preferred shares, par value US\$0.001 per share, in the share capital of the Company, with the rights set forth in the Charter Documents.

“Series B Preferred Shares” means the series B preferred shares, par value US\$0.001 per share, in the share capital of the Company, with the rights set forth in the Charter Documents.

“Shares” means the Ordinary Shares and the Preferred Shares.

“Shareholders” means (a) Sohu Search, Photon, Sogou Management and Tencent and (b) any other person who becomes a shareholder of the Company in accordance with the terms of this Agreement and executes a Joinder substantially in the form attached hereto as Exhibit A, in each case for so long as such person remains a shareholder of the Company, and in the case of any Shareholder that is a natural person shall be deemed to include the estate of such Shareholder and the executor, conservator, committee or other similar legal representative of such Shareholder or such Shareholder’s estate following the death or incapacitation of such Shareholder.

“Subsidiary” means, with respect to any specified Person, any other Person Controlled by the specified Person, directly or indirectly, whether through contractual arrangements or through ownership of Equity Securities, voting power or registered capital. For the avoidance of the doubt, a “variable interest entity” (a “VIE Entity”) Controlled by another entity shall be deemed a Subsidiary of that other entity, and shall include, for the Company, Beijing Sogou Information Services Co., Ltd. (北京搜狗信息服务有限公司) (“Sogou Information”).

“US\$” means United States Dollars, the lawful currency of the United States of America.

“VIE Control Documents” means the suite of contracts between the wholly-owned subsidiary of the Company and the Company’s “variable interest entity” or the shareholders of such “variable interest entity”, as amended and supplemented from time to time, including (1) Exclusive Technology Consulting and Service Agreement dated September 26, 2010 by and among Beijing Sogou Technology Development Co., Ltd. (北京搜狗科技发展有限公司), a wholly-foreign owned enterprise organized and existing under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company (“Sogou Technology”), and Sogou Information, (2) Business Operation Agreement dated September 26, 2010 by and among Sogou Technology, Sogou Information and the shareholders of Sogou Information, (3) Exclusive Equity Interest Purchase Rights Agreement dated September 26, 2010 by and among Sogou Technology, Sogou Information and the shareholders of Sogou Information, (4) Share Pledge Agreement dated September 26, 2010 by and among Sogou Technology (as the pledgee), and the shareholders of Sogou Information (as the pledgors), (5) two Loan Agreements dated September 26, 2010 by Sogou Technology and each of the shareholders of Sogou Information respectively, and (6) a Business Division and Cooperation Agreement dated September 26, 2010 by Sogou Technology and Sogou Information.

“Yunfeng” means China Web Search (HK) Limited.

1.2 Terms Defined Elsewhere in this Agreement. The following terms are defined in this Agreement as follows:

<u>Term</u>	<u>Section</u>
“ <u>Acceptance Notice</u> ”	Section 2.7(b)
“ <u>Agreement</u> ”	Preamble
“ <u>Arbitration Notice</u> ”	Section 13.2(a)
“ <u>Company</u> ”	Preamble
“ <u>Confidential Information</u> ”	Section 9.1
“ <u>Consent Shareholder</u> ”	Section 2.4(a)(i)
“ <u>Earlier Appraisals</u> ”	Section 2.6
“ <u>Existing Investors’ Right Agreement</u> ”	Section 6.1
“ <u>Fair Market Value</u> ”	Section 2.5
“ <u>First Refusal Right</u> ”	Section 2.7(a)
“ <u>HKIAC</u> ”	Section 13.2(b)
“ <u>Member of Sogou Management</u> ”	Preamble
“ <u>Notices</u> ”	Section 11.1
“ <u>Offer Period</u> ”	Section 2.7(b)
“ <u>Offer Price</u> ”	Section 2.5
“ <u>Offered Shares</u> ”	Section 2.5
“ <u>Offeree</u> ”	Section 2.7(a)
“ <u>Permitted Transferee</u> ”	Section 2.3
“ <u>Photon</u> ”	Preamble
“ <u>Proposed Issuance</u> ”	Section 3.2
“ <u>Proposed Recipient</u> ”	Section 3.1
“ <u>Qualified IPO</u> ”	Section 6.1
“ <u>Representatives</u> ”	Section 9.1
“ <u>Shareholders Meeting</u> ”	Section 4.1
“ <u>Sogou Management</u> ”	Preamble
“ <u>Sohu Search Directors</u> ”	Section 4.2(a)
“ <u>Sohu Search</u> ”	Preamble
“ <u>Subscription Agreement</u> ”	Recitals
“ <u>Tag-Along Right</u> ”	Section 2.8(a)
“ <u>Tag-Along Shareholder</u> ”	Section 2.8(b)
“ <u>Tencent Directors</u> ”	Section 4.2(a)
“ <u>Tencent OpCo</u> ”	Section 5.11
“ <u>Tencent</u> ”	Preamble
“ <u>Transfer Notice</u> ”	Section 2.5
“ <u>Transfer</u> ”	Section 2.1
“ <u>Transferee</u> ”	Section 2.5
“ <u>Transferring Shareholder</u> ”	Section 2.4(a)
“ <u>WXC</u> ”	Preamble

1.3 Interpretation.

- (a) Directly or Indirectly. The phrase “directly or indirectly” means directly, or indirectly through one or more intermediate Persons or through contractual or other arrangements and “direct or indirect” has the correlative meaning.
- (b) Gender and Number. Unless the context otherwise requires, all words (whether gender-specific or gender neutral) shall be deemed to include each of the masculine, feminine and neuter genders, and words importing the singular include the plural and vice versa.
- (c) Headings. Headings are included for convenience only and shall not affect the construction of any provision of this Agreement.
- (d) Include not Limiting. “Include,” “including,” “are inclusive of” and similar expressions are not expressions of limitation and shall be construed as if followed by the words “without limitation”.
- (e) Law. References to “law” or “laws” shall include all applicable laws, regulations, rules and orders of any Governmental Authority, securities exchange or other self-regulating body, including any common or customary law, constitution, code, ordinance, statute or other legislative measure and any regulation, rule, treaty, order, decree or judgment; and “lawful” shall be construed accordingly.
- (f) Persons. A reference to any “Person” shall, where the context permits, include such person’s executors, administrators, legal representatives and permitted successors and assignors.
- (g) References to Documents. References to this Agreement include the Schedules and Exhibits, which form an integral part hereof. A reference to any Section, Schedule or Exhibit is, unless otherwise specified, to such Section of, or Schedule or Exhibit to this Agreement. The words “hereof,” “hereunder” and “hereto,” and words of like import, unless the context requires otherwise, refer to this Agreement as a whole and not to any particular Section hereof or Schedule or Exhibit hereto. References to any document (including this Agreement) are references to that document as amended, consolidated, supplemented, novated or replaced from time to time.
- (h) Share Calculations. In calculations of share numbers, references to “fully diluted basis” mean that the calculation is to be made assuming that all outstanding options, warrants and other Equity Securities convertible into or exercisable or exchangeable for Ordinary Shares (whether or not by their terms then currently convertible) have been so converted, exercised or exchanged, and references to “non-diluted basis” mean the calculation is to be made taken into account only Shares then in issue. All references to number of Shares or the prices per Share in this Agreement shall be appropriately adjusted to take into account any share splits, combinations, reorganizations, share dividends, mergers, recapitalizations similar events that affect the share capital of the Company the date hereof.

- (i) **Time.** Except as otherwise provided, (i) for purposes of calculating the length of time from a given day or the day of a given act or event, the relevant period shall be calculated exclusive of that day, and (ii) for all other purposes, any period of time commencing on or from a given day or the day of a given act or event shall include that day. If the day on or by which a payment must be made is not a Business Day, that payment must be made on or by the Business Day immediately following such day.
- (j) **Writing.** References to writing include any mode of reproducing words in a legible and non-transitory form including emails and faxes.

SECTION 2
RESTRICTIONS ON TRANSFER OF SHARES

- 2.1 **Limitation on Transfers.** No Shareholder shall sell, give, assign, hypothecate, pledge, encumber, grant a security interest in or otherwise dispose of, or suffer to exist (whether by operation of law or otherwise) any Encumbrance on, any Shares or any right, title or interest therein or thereto (each, a “**Transfer**”), except as expressly permitted by this Section 2. Any attempt to Transfer any Shares in violation of the preceding sentence shall be null and void ab initio, and the Company shall not register any such Transfer.
- 2.2 **Transfers in Compliance with Law.** Notwithstanding any other provision of this Agreement, no Transfer may be made pursuant to this Section 2 unless (a) the transferee has agreed in writing to be bound by the terms and conditions of this Agreement pursuant to a Joinder substantially in the form attached hereto as **Exhibit A**, (b) the Transfer complies in all respects with the other applicable provisions of this Agreement and (c) the Transfer complies in all respects with applicable securities laws. If requested by the Company in its reasonable discretion, an opinion of counsel to such Transferring Shareholder shall be supplied to the Company, at such Transferring Shareholder’s expense, to the effect that such Transfer complies with applicable securities laws.
- 2.3 **Permitted Transfers.** The following Transfers may be made without compliance with the provisions of Section 2.4 to Section 2.9:
 - (a) any Transfer by a Shareholder to an Affiliate of such Shareholder;
 - (b) any Transfer by a Shareholder that is a natural person to a Relative of such Shareholder or to a trust for the benefit of a Relative of such Shareholder, provided that such Shareholder is the sole trustee of such trust, or to a trust of which such Shareholder or a Relative of such Shareholder is the sole beneficiary;
 - (c) any Transfer from a trust in which a Shareholder or a Relative of such Shareholder is the sole beneficiary to such Shareholder or to such Relative; and
 - (d) any sale of Shares on the public market in connection with or following an IPO.

A person described with respect to a Shareholder in clause (a) or (b) of this Section 2.3 is hereinafter referred to as a “Permitted Transferee” of such Shareholder. If a transferee of Shares pursuant to clause (a) or (b) of this Section 2.3 at any time ceases to be a Permitted Transferee of the Transferring Shareholder, the transferee shall Transfer such Shares back to such Transferring Shareholder.

2.4 Other Transfers.

- (a) Consent Right. If any Shareholder proposes to Transfer any Equity Securities of the Company (the “Transferring Shareholder”), it shall obtain the consent of the applicable Consent Shareholder in accordance with the following provisions:
- (i) if any of Sohu Search, Photon, any Member of Sogou Management or any of their Affiliates or Permitted Transferees is the Transferring Shareholder, Tencent has the right to consent to such proposed Transfer at its sole discretion (in such case, Tencent shall be the “Consent Shareholder”), and
 - (ii) if Tencent or any of its Affiliates or Permitted Transferees is the Transferring Shareholder, Sohu Search has the right to consent to such proposed Transfer at its sole discretion (in such case, Sohu Search shall be the “Consent Shareholder”).

For the avoidance of doubt, after termination of this Agreement pursuant to Section 10.1, no Shareholder shall have the consent right set forth in this Section 2.4.

- (b) Exercise of Consent Right. The Transferring Shareholder shall issue the Transfer Notice in accordance with Section 2.5 below to the relevant Consent Shareholder and such Consent Shareholder, may either approve or reject in writing the proposed Transfer set out in the Transfer Notice. If the Consent Shareholder does not consent to the proposed Transfer, the Transferring Shareholder shall not make the proposed Transfer or if purported to be made, such Transfer shall be void. If the Consent Shareholder has consented to such proposed Transfer in writing, the Consent Shareholder shall also have the First Refusal Right and the Tag-Along Right set out below.

- 2.5 Transfer Notice. If a Transferring Shareholder proposes to Transfer, or receives a bona fide offer to acquire Shares and the Transferring Shareholder proposes to accept such offer, the Transferring Shareholder shall send written notice (the “Transfer Notice”) to the other Shareholders, which notice shall state, as applicable, (i) the name of the Transferring Shareholder, (ii) the name and address of the proposed transferee (the “Transferee”), (iii) the number and type of Shares to be Transferred (the “Offered Shares”), (iv) the amount and form of the proposed consideration for the Transfer; (v) the other terms and conditions of the proposed Transfer; and (vi) the number of Shares the Transferring Shareholder then owns, on an as converted but otherwise non-diluted basis. In the event that the proposed consideration for the Transfer includes consideration other than cash, the Transfer Notice shall include a calculation of the fair market value of such non-cash consideration (the “Fair Market Value”) and an explanation how such calculation has been derived, subject to Section 2.6 below. The consideration per Share for the proposed Transfer is referred to herein as the “Offer Price”. Such Transfer Notice shall be accompanied by true and complete copies of all agreements between the Transferring Shareholder and the Transferee regarding the proposed Transfer.

2.6 Fair Market Value. In the event that any Shareholder objects to the Fair Market Value of any non-cash consideration set forth in a Transfer Notice and the Transferring Shareholder and such other Shareholder cannot agree on the Fair Market Value within 10 days after the beginning of the Offer, any of such Parties may, by three days written notice to all other Shareholders, initiate appraisal proceedings for determination of the Fair Market Value of such non-cash consideration. If any Shareholder initiates an appraisal procedure to determine the Fair Market Value, then the Transferring Shareholder and such other Shareholder shall each promptly appoint as an appraiser an individual who is a member of an internationally recognized investment banking firm. Each appraiser shall, within 30 days of appointment, separately investigate the Fair Market Value of the non-cash consideration as of the proposed Transfer date and shall submit a notice of an appraisal of such Fair Market Value to each Shareholder. Each appraiser shall be instructed to determine such Fair Market Value without regard to income tax consequences to the Transferring Shareholder as a result of receiving cash rather than other consideration. If the appraised Fair Market Values (the "Earlier Appraisals") vary by ten percent (10%) or less of the higher of the Earlier Appraisal, then the average of the two appraised Fair Market Values shall be controlling as the final Fair Market Value. If the appraised Fair Market Values vary by more than ten percent (10%) of the higher of the Earlier Appraisal, then the appraisers, within 10 days of the submission of the last appraised Fair Market Value, shall appoint a third appraiser who is a member of an internationally recognized investment banking firm. The third appraiser shall, within 30 days of his appointment, appraise the Fair Market Value of the non-cash consideration (without regard to the income tax consequences to the Transferring Shareholder as a result of receiving cash rather than other consideration) as of the proposed Transfer date and submit notice of such appraised Fair Market Value to each Shareholder. The Fair Market Value determined by such third party appraiser shall be controlling as the final Fair Market Value unless such Fair Market Value is greater than both of the two Earlier Appraisals, in which case the higher of the two Earlier Appraisals shall control, and unless such Fair Market Value is lower than both of the two Earlier Appraisals, in which case the lower of the two Earlier Appraisals shall control. If any Shareholder fails to appoint an appraiser or if one of the two initial appraisers fails after appointment to submit his appraisal within the required time period, the appraisal submitted by the remaining appraiser shall be controlling. The Transferring Shareholder and the other Shareholder shall each bear the cost of its respective appointed appraiser, and the cost of the third appraiser shall be shared one-half by the Transferring Shareholder and one-half by the objecting Shareholder. If a Shareholder delivers an Acceptance Notice prior to the final determination of the Fair Market Value pursuant to such appraisal proceedings, such Shareholder may give written notice to the Transferring Shareholder revoking such Acceptance Notice within 10 days after the determination of the appraised Fair Market Value, if such Shareholder chooses not to purchase or sell the Offered Shares.

2.7 Right of First Refusal.

- (a) First Refusal Right. If any of Sohu Search, Photon, any Member of Sogou Management or any of their Affiliates or Permitted Transferees is the Transferring Shareholder, Tencent shall have the right to purchase in aggregate all or part of the Offered Shares at a purchase price in cash equal to the Offer Price per Share and upon the other terms and conditions set forth in the Transfer Notice (the "First Refusal Right"). If Tencent or any of its Affiliates or Permitted Transferees is the Transferring Shareholder, Sohu Search and Photon shall have the First Refusal Right. The Shareholder that has the First Refusal Right (Tencent or Sohu Search and Photon, as applicable) shall be referred to as the "Offeree(s)". Each Offeree shall have the right to assign to an Affiliate of such Offeree its right to acquire Offered Shares pursuant to this Section 2.7(a). In the event that an Offeree cannot exercise its First Refusal Right because the exercise of such right may not obtain the necessary Regulatory Approvals, such Offeree shall have the right to assign its First Refusal Right to a third party to be approved by the Transferring Shareholder, such approval not to be unreasonably withheld or delayed.
- (b) Exercise of Rights. The First Refusal Right of the Offeree(s) under Section 2.7(a) shall be exercisable by delivering written notice of exercise (an "Acceptance Notice") within 30 days after delivery of the Transfer Notice (the "Offer Period") to the Transferring Shareholder specifying the number of Offered Shares that each Offeree wishes to purchase. Subject to Section 2.6, an Acceptance Notice shall be irrevocable and shall constitute a binding agreement by such Offeree to purchase the stated number of the Offered Shares. The failure of an Offeree to give an Acceptance Notice within the Offer Period shall be deemed to be a waiver of such Offeree's First Refusal Right. If Sohu Search and Photon are the Offerees, Sohu Search and Photon shall each have a Pro Rata right to purchase the Offered Shares.
- (c) Sale to Third Party Purchaser. Subject to Section 2.9, if the Offeree(s) does not elect to purchase all of the Offered Shares, the Transferring Shareholder may Transfer, subject to Section 2.8, all or any remaining Offered Shares to the Transferee identified in the Transfer Notice on the terms and conditions set forth in the Transfer Notice; provided, however, that (i) such sale is bona fide, (ii) the price for the sale to the Transferee is a price not less than the Offer Price per Share and the sale is otherwise on terms and conditions no less favorable to the Transferring Shareholder than those set forth in the Transfer Notice, and (iii) the Transfer is completed within three months after the giving of the Transfer Notice. If such a Transfer does not occur within such three-month period for any reason, the restrictions provided for herein shall again become effective, and no Transfer of Shares may be made by the Transferring Shareholder thereafter without again complying with this Section 2.

- (d) Closing. The closing of any purchase of Offered Shares by the Offeree(s) shall be held at the principal office of the Company at 11:00 a.m. local time on the 45th day after the giving of the Transfer Notice, or on the 15th day after final determination of the non-cash consideration pursuant to Section 2.6 (if applicable) or at such other time and place as the parties to the transaction may agree. The said 45 day period or such other period as specified in the preceding sentence shall be extended for an additional period of up to 45 days if necessary to obtain any Regulatory Approvals required for such purchase and payment. At such closing, the Transferring Shareholder shall deliver certificates representing the Offered Shares that the Offeree(s) elected to purchase, accompanied by duly executed instruments of transfer and the Transferring Shareholder's portion of the requisite transfer taxes, if any. Such Offered Shares shall be free and clear of any Encumbrance (other than Encumbrances arising hereunder or attributable to actions by the Offeree(s)), and the Transferring Shareholder shall so represent and warrant and shall further represent and warrant that it is the beneficial and record owner of such Offered Shares. The Offeree(s) purchasing Offered Shares shall deliver at such closing (or on such later date or dates as may be provided in the Transfer Notice with respect to payment of consideration by the proposed Transferee) payment in full of the Offer Price per Share. At such closing, all of the parties to the transaction shall execute such additional documents as may be necessary or appropriate to effect the sale of the Offered Shares to the Offeree(s). Any stamp duty or transfer taxes or fees payable on the transfer of any Offered Shares shall be borne and paid equally by the Transferring Shareholder and the Offeree(s). The Parties acknowledge that Sohu Search and Libra Management have entered into a voting agreement on the date hereof with respect to the voting of Libra Management's Equity Securities in the Company (the "Voting Agreement"). The Voting Agreement provides that if any Member of Libra Management Transfers Equity Securities in the Company to any other Person, such transferee shall be bound by the provisions of the Voting Agreement. Sohu Search hereby irrevocably agrees that, in the event any Member of Libra Management Transfers Equity Securities in the Company to Tencent or its Affiliate, neither Tencent nor its Affiliates shall be required to become a party to or be otherwise subject to the terms of the Voting Agreement.

2.8 Tag-Along Rights.

- (a) Tag-Along Rights. If a Transferring Shareholder proposes to make a Transfer, provided that an Offeree has not exercised its First Refusal Right, the Offeree shall have the right (the "Tag-Along Right") but not the obligation to require the Transferee in a Transfer to purchase from the Offeree, for the same consideration per Share and upon the same terms and conditions as to be paid and given to the Transferring Shareholder, up to a maximum of the number of Offered Shares multiplied by a fraction, the numerator of which is the number of Shares held by the Offeree and the denominator of which is the total number of Shares held by the Transferring Shareholder and all Offerees, in each case on an as converted but otherwise non-diluted basis. If an Offeree elects to exercise its Tag-Along Right, the number of Shares to be Transferred by the Transferring Shareholder shall be reduced accordingly.

- (b) Tag-Along Notice. If an Offeree elects to exercise its Tag-Along Right (the “Tag-Along Shareholder”), the Offeree shall deliver a written notice of such election to the Transferring Shareholder within the Offer Period, specifying the number of Shares with respect to which it has elected to exercise its Tag-Along Right. Subject to Section 2.6, such notice shall be irrevocable and shall constitute a binding agreement by such Shareholder to Transfer such Shares on the terms and conditions set forth in the Transfer Notice. The failure of the Tag-Along Shareholder to give an Acceptance Notice within the Offer Period shall be deemed to be a waiver of such Tag-Along Shareholder’s Tag Along Right.
- (c) Consummation. The closing of the sale of Shares pursuant to the Tag-Along Right shall occur simultaneously with the Transfer of Shares by the Transferring Shareholder. Where any Shareholder has properly elected to exercise its Tag-Along Right and the proposed Transferee fails to purchase Shares from such Shareholder, the Transferring Shareholder shall not make the proposed Transfer, and if purported to be made, such Transfer shall be void.

2.9 Termination of Business Cooperation Agreements. In the event that:

- (a) any Equity Securities are Transferred to Qihoo 360 Technology Co. Ltd., Alibaba Group Holding Limited or their respective Affiliates, or
- (b) there is a Change of Control of Sohu.com Inc. and the Person or Persons that acquires Control of Sohu.com Inc. is Qihoo 360 Technology Co. Ltd., Alibaba Group Holding Limited and/or their respective Affiliates,

Tencent shall have the right upon notice in writing to the Company to terminate the Business Resource Sharing Agreement, the Mobile Browser Cooperation Agreement and the Video Cooperation Agreement, each made between an Affiliate of Tencent, an Affiliate of the Company and other parties named therein entered into on the date hereof, as amended from time to time.

- 2.10 Avoidance of Restrictions. The Parties agree that the Transfer restrictions in this Agreement and in the Charter Documents shall not be capable of being avoided by the holding of Shares indirectly through a company or other entity that can itself be sold in order to dispose of an interest in Shares free of such restrictions. Any Transfer or other disposal of any shares (or other interest) resulting in any Change of Control of a Shareholder or of any company (or other entity) having Control over that Shareholder shall be treated as being a Transfer of the Shares held by that Shareholder, and the provisions of this Agreement and the Charter Documents that apply in respect of the Transfer of Shares shall thereupon apply in respect of the Shares so held.

- 2.11 Transfer of Convertible Securities. Any Transfer of Equity Securities exercisable or convertible into or exchangeable for Shares will be deemed for the purposes of this Section 2 to be a Transfer of Shares.
- 2.12 Notice of Transfer. Within five Business Days after registering any Transfer of Shares or other Equity Securities on its books, the Company shall send a notice to each Shareholder stating that such Transfer has taken place and setting forth the name of the Transferring Shareholder, the name of the Transferee and the number and class of Equity Securities involved.

SECTION 3 PREEMPTIVE RIGHTS AND VESTING OF OPTIONS

- 3.1 Restrictions. The Company shall not issue any securities (including, without limitation, any Equity Securities or any debt or other securities of any kind) of any type or class to any person (the “Proposed Recipient”) unless the Company has offered Sohu Search, Photon, Tencent and their respective Affiliates who are also Shareholders of the Company in accordance with the provisions of this Section 3 the right to purchase such Shareholder’s Pro Rata Share of such issuance for a per unit consideration, payable solely in cash, equal to the per unit consideration to be paid by the Proposed Recipient and otherwise on the same terms and conditions as are offered to the Proposed Recipient; provided that the foregoing restriction shall not apply to (i) the issuance or sale of up to 36,000,000 Ordinary A Shares (or options therefor) (as adjusted for any share splits, share dividends and the like) to employees, officers, directors, consultants and other service providers for the primary purpose of soliciting or retaining their services pursuant to the Company’s 2010 Share Incentive Plan, as amended, (ii) the issuance of Shares upon the conversion, exercise or exchange of options, warrants or convertible securities issued after the date of this Agreement in accordance with the terms hereof, (iii) the issuance of Shares in Qualified IPO; (iv) the issuance of Equity Securities in connection with a bona fide business acquisition of or by the Company, whether by merger, consolidation, sale of assets, sale or exchange of securities or otherwise, approved by the Board in accordance with this Agreement, and (v) Ordinary Shares issued pursuant to a share split, share dividend or similar reorganization.
- 3.2 Notice. Not less than 20 days before a proposed issuance of securities other than in connection with an issuance permitted under Section 3.1 (a “Proposed Issuance”), the Company shall deliver to each relevant Shareholder written notice of the Proposed Issuance setting forth (i) the number, type and terms of the securities to be issued, (ii) the consideration to be received by the Company in connection with the Proposed Issuance and (iii) the identity of the Proposed Recipients.

- 3.3 Exercise of Rights. Within 15 days following delivery of the notice referred to in Section 3.2, each Shareholder electing to exercise its rights under this Section 3 shall give written notice to the Company specifying the number of securities to be purchased by such Shareholder and the calculation by such Shareholder of its Pro Rata Share. Except as provided in the next succeeding sentence, failure by any Shareholder to give such notice within such 15 day period shall be deemed a waiver by such Shareholder of its rights under this Section 3 with respect to such Proposed Issuance. If any Shareholder fails to give the notice required under this Section 3.3 solely because of the Company's failure to comply with the notice provisions of Section 3.2, then the Company shall not issue securities pursuant to this Section 3 and if purported to be issued, such issuance of securities shall be void.
- 3.4 Vesting of Options. Each Member of Sogou Management agrees that this Agreement shall apply to all Equity Securities that such Person holds, whether directly or indirectly, in the Company on the date hereof or acquired after the date hereof. In addition, if, after the date hereof, any Member of Sogou Management wishes to hold any Equity Securities of the Company issued under the Company's stock option plan through any other Person who is not already a party to this Agreement, then such Member of Sogou Management shall procure such other Person to become a party to this Agreement by signing a Joinder substantially in the form attached hereto as Exhibit A.

SECTION 4 CORPORATE GOVERNANCE

- 4.1 General. From and after the date hereof, each Shareholder shall vote its Shares at any regular or special meeting of Shareholders (a "Shareholders Meeting"), and shall take all other actions necessary, to give effect to the provisions of this Agreement and to ensure the inclusion in the Charter Documents the rights and privileges of the Shareholders under Sections 2, 3, 4 and 5.4. In addition, each Shareholder shall vote its Shares at any Shareholders Meeting, upon any matter submitted for action by the Shareholders or with respect to which such Shareholder may vote, in conformity with the specific terms and provisions of this Agreement.
- 4.2 Board of Directors
- (a) Number and Composition. The number of Directors constituting the entire Board as of the date hereof shall be five. Each Shareholder shall vote its Shares at any Shareholders Meeting called for the purpose of filling the positions on the Board or in any written consent of Shareholders executed for such purpose to elect, and shall take all other actions necessary to ensure the election to the Board of, (i) two nominees of Tencent (the "Tencent Directors"), and (ii) three nominees of Sohu Search (the "Sohu Search Directors").

(b) Removal and Replacement of Directors.

- (i) A Director shall be removed from the Board, with or without cause, upon, and only upon, the affirmative vote of the Shareholders in accordance with this Section 4.2(b) and the provisions of the Companies Act. Each Shareholder shall vote its Shares for the removal of a Director upon the request of the Shareholder that nominated such Director. Otherwise, no Shareholder shall vote for the removal of a Director.
 - (ii) In the event any Director resigns or is removed in accordance with Section 4.2(b)(i), the Shareholder that nominated such Director will have the right to nominate such Director's successor or replacement, and such successor or replacement Director shall be nominated and appointed on or as soon as practicable after the date of such resignation or removal.
- (c) Directors' Access. Each Director shall be entitled to examine the books and accounts of the Company and shall have free access, at all reasonable times and with prior written notice, to any and all properties and facilities of the Company or any Subsidiary. The Company shall provide such information relating to the business affairs and financial position of the Company as any Director may require. A Director may provide such information to the Shareholder that nominated him/her for appointment.
- (d) Authority of Board. Subject only to the provisions of this Agreement, the Charter Documents and the Companies Act:
- (i) the Board shall have ultimate responsibility for management and control of the Company; and
 - (ii) the Board shall be required to make all major decisions of the Company and all decisions outside the day to day business of the Company. All matters in respect of such decisions must be referred to the Board, and no Shareholder or officer shall take any actions purporting to commit the Company in relation to any such matters without the approval of the Board.
- (e) Non-Executive Chairman and Executive Director of the Board. The Chairman of the Board shall initially be Charles Zhang for a term of at least three years from the date of this Agreement. The Chairman shall be a non-executive role and shall not have an additional casting vote. One of the initial Sohu Search Directors shall be the current chief executive officer of the Company. Such person, or any successor in the position of chief executive officer, shall be the executive Director for at least three years from the date of this Agreement.

4.3 Board Meetings.

- (a) Frequency and Location. Meetings of the Board shall take place at least once every quarter. Meetings shall be held in a location approved by a majority of the Directors.

- (b) Notice. A meeting may be called by the Chairman of the Board or any two other Directors giving notice in writing to the Company Secretary specifying the date, time and agenda for such meeting. The Company Secretary shall upon receipt of such notice give a copy of such notice to all Directors of such meeting, accompanied by a written agenda specifying the business of such meeting and copies of all papers relevant for such meeting. Not less than 14 days' notice shall be given to all Directors; provided, however, that such notice period (i) shall not apply in the case of an adjourned meeting pursuant to Section 4.3(c) and (ii) may be reduced with the written consent of all of the Directors.
 - (c) Quorum. All meetings of the Board shall require a quorum of at least four Directors; If such a quorum is not present within one hour from the time appointed for the meeting, the meeting shall adjourn to such place and time as those Directors who did attend shall decide or, if no such decision is reached, at the same place and time seven days later, at which meeting any three (3) Directors present shall constitute a valid quorum; provided that notice of such adjourned meeting shall have been delivered to all Directors at least five days prior to the date of such adjourned meeting.
 - (d) Voting. At any Board meeting, each Director may exercise one vote. Any Director may, by written notice to the Company Secretary, authorize another Director to attend and vote by proxy for such Director at any Board meeting, the adoption of any resolution of the Board shall require the affirmative vote of a majority of the Directors present at a duly constituted meeting of the Board. The Board shall not at any meeting adopt any resolution covering any matter that is not specified on the agenda for such meeting unless all Directors are present at such meeting and vote in favor of such resolution.
 - (e) Telephonic Participation. Directors may participate in Board meetings by telephone, and such participation shall constitute presence for purposes of the quorum provisions of Section 4.3(c).
 - (f) Expenses. The reasonable costs of attendance of Directors at Board meetings shall be borne by the Company.
 - (g) Action by Written Consent. Any action that may be taken by the Directors at a meeting may be taken by a written resolution signed by all of the Directors.
- 4.4 Related-Party Transactions. Any transaction between any Group Member and a Related Party shall be approved by the Board. For any Board decision relating to a transaction with a Related Party, all Directors nominated by the interested Shareholder shall be recused and disqualified from any vote on any such matter.
- 4.5 Board Committees. Each committee of the Board shall include at least one (1) Tencent Director.

4.6 Shareholder Reserved Matters. So long as there are any relevant Preferred Shares outstanding, in addition to any other vote or consent required by the Companies Act,

- (a) the Directors and the Shareholders, as applicable, shall cast their votes to procure that the consent of Majority Series A Preferred Shareholders, voting as a single and separate class, is obtained for any action (whether by amendment of the Charter Documents or otherwise, and whether in a single transaction or a series of related transactions) that approves or effects any of the following transactions involving any member of the Group:
 - (i) effect any Liquidation Event, or consent to any Liquidation Event;
 - (ii) amend, alter or repeal any provision of the Memorandum of Association or the Articles of Association of the Company in a manner that adversely affects the powers, preferences or rights of the Series A Preferred Shares except in connection with, and effective upon the completion of, a Qualified IPO;
 - (iii) create, or authorize the creation of, or issue or obligate itself to issue shares of (by reclassification or otherwise), any additional class or series of share capital unless the same have rights, powers, preferences or privileges junior to the Series A Preferred Shares, except in connection with, and effective upon the completion of, a Qualified IPO;
 - (iv) increase or decrease the authorized number of Ordinary Shares, Series A Preferred Shares, or the authorized share capital of the Company, or increase or decrease the share capital of any other Group Company if they would change as a result of such increase or decrease, except in connection with, and effective upon the completion of, a Qualified IPO;
 - (v) except in connection with, and effective upon the completion of, a Qualified IPO, (A) reclassify, alter or amend any existing security of the Company that is pari passu with the Series A Preferred Shares in respect of the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends or rights of redemption, if such reclassification, alteration or amendment would render such other security senior to the Series A Preferred Shares in respect of any such right, preference or privilege, or (B) reclassify, alter or amend any existing security of the Company that is junior to the Series A Preferred Shares in respect of the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends or rights of redemption, if such reclassification, alteration or amendment would render such other security senior to or pari passu with the Series A Preferred Shares in respect of any such right, preference or privilege;

- (vi) pay, set aside or declare a distribution or dividend with respect to any of the share or other equity interest in any Group Company;
- (vii) purchase or redeem (or payment into or setting aside for a sinking fund for such purpose) any shares of any Group Company other than repurchases of shares from former employees, officers, directors, consultants or other Persons who performed services for the Company or any other Group Company in connection with the cessation of such employment or service at the lower of the original purchase price or the then-current fair market value thereof;
- (viii) create, or authorize the creation of, or issue, or authorize the issuance of any debt security or guaranty of indebtedness other than trade debt facilities;
- (ix) approve any stock option plan or other employee share incentive plan of any Group Company;
- (x) amend or alter the business scope of any Group Company, or approve the entry into new lines of business or exit from any current lines of business by any Group Company;
- (xi) change the capital structure of any Group Company if the proportional record or beneficial ownership of such other Group Company would change as a result of such change;
- (xii) alter or amend any term of any agreement between Sogou Information and any other Group Company or between any holder of equity securities of Sogou Information and any other Group Company, other than a renewal of any term of such agreement;
- (xiii) any transfer or issuance of equity interests of Sogou Information other than to an individual who (i) owns at least one percent (1%) of the then outstanding voting securities of the Company (assuming for such purposes the conversion or exercise of convertible or exercisable securities, options, warrants or other similar rights held by such individual) and (ii) has been employed by one or more Group Companies for at least two (2) years as a manager of such Group Company(ies), or in any other position with responsibilities at a level higher than manager; or
- (xiv) agree or commit to any of the foregoing.

- (b) the Directors and the Shareholders, as applicable, shall cast their votes to procure that the consent of Majority Series B Preferred Shareholders, voting as a single and separate class, is obtained for any action (whether by amendment of the Charter Documents or otherwise, and whether in a single transaction or a series of related transactions) that approves or effects any of the following transactions involving any member of the Group:
- (i) effect any Liquidation Event, or consent to any Liquidation Event;
 - (ii) amend, alter or repeal any provision of its constitutional documents, the VIE Control Documents or the Basic Documents, except in connection with, and effective upon the completion of, a Qualified IPO;
 - (iii) create, or authorize the creation of, or issue or obligate itself to issue shares of (by reclassification or otherwise), any additional class or series of share capital, except in connection with, and effective upon the completion of, a Qualified IPO;
 - (iv) increase or decrease the authorized number of Ordinary Shares, Preferred Shares, or the authorized share capital of the Company, or increase or decrease the share capital of any other Group Company if the proportional record or beneficial ownership of such other Group Company would change as a result of such increase or decrease, except in connection with, and effective upon the completion of, a Qualified IPO;
 - (v) except in connection with, and effective upon the completion of, a Qualified IPO, (A) reclassify, alter or amend any existing equity security of the Company that is *pari passu* with the Preferred Shares in respect of the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends or rights of redemption, if such reclassification, alteration or amendment would render such other security senior to the Preferred Shares in respect of any such right, preference or privilege, or (B) reclassify, alter or amend any existing equity security of the Company that is junior to the Preferred Shares in respect of the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends or rights of redemption, if such reclassification, alteration or amendment would render such other security senior to or *pari passu* with the Preferred Shares in respect of any such right, preference or privilege;
 - (vi) pay, set aside or declare a distribution or dividend with respect to any of the share capital or other equity interest in any Group Company;

- (vii) purchase or redeem (or payment into or setting aside for a sinking fund for such purpose) any shares of any Group Company other than repurchases of shares from former employees, officers, directors, consultants or other persons who performed services for the Company or any other Group Company in connection with the cessation of such employment or service at the lower of the original purchase price or the then-current fair market value thereof;
- (viii) create, or authorize the creation of, or issue, or authorize the issuance of any debt security or guaranty of indebtedness other than trade debt facilities, individually or in aggregate exceeding 30% of the total assets of the Company as of the end of the last Financial Year;
- (ix) approve or amend any stock option plan or other employee share incentive plan of any Group Company;
- (x) make any material changes to, or to cease, any line of the Principal Business;
- (xi) change the capital structure of any Group Company if the proportional record or beneficial ownership of such other Group Company would change as a result of such change; or
- (xii) agree or commit to any of the foregoing.

**SECTION 5
COVENANTS OF THE COMPANY**

- 5.1 **Financial Records.** The Company shall allow each Shareholder and its authorized representatives the right during normal business hours to inspect its books and accounting records and those of the Subsidiaries, to make extracts and copies therefrom at its own expense and to have full access to all of the Company's and each Subsidiary's property and assets.
- 5.2 **Books and Records.** The Company shall, and shall cause the Subsidiaries to, keep proper, complete and accurate books of account in U.S. dollar and, in the case of each Subsidiary, the currency of the jurisdiction in which such Subsidiary is organized, in each case in accordance with applicable GAAP. The Company shall have its accounts and those of each Subsidiary audited annually in accordance with such standards by a reputable firm of international accountants appointed by the Board.
- 5.3 **Reports.** The Company shall provide to Sohu Search and Tencent (a) within three months after the end of each Financial Year, the annual audited consolidated financial statements of the Company for such Financial Year, (b) within 45 days after the end of each quarter, quarterly unaudited consolidated financial statements of the Company for such quarter, (c) within 20 days after the end of each month, a management report and (d) such other reports as the Board may determine. The Company shall furnish to the Shareholders and their auditors such financial and other information relating to the business of the Company and its Subsidiaries as any of them may reasonably require.

- 5.4 **Internal Auditor.** Tencent will have the right to appoint an internal auditor of the Company for (a) monitoring the use of corporate funds of the Company, (b) monitoring the maintenance and protection of the intellectual property of the Company and (c) co-signing expenditures of the Company for a transaction or a series of related transactions exceeding 30% of the total assets of the Company as of the end of the last Financial Year.
- 5.5 **Securities Filings.** The Company shall provide to Tencent, promptly after the filing thereof, copies of any registration statement, preliminary prospectus, final prospectus, application for listing or other document filed with any securities regulatory authority or securities exchange in any jurisdiction.
- 5.6 **Budgets and Business Plans.** The Company shall prepare proposed annual operating and capital budgets and business plans for the Company, which shall be submitted to all Directors not less than two months prior to the commencement of each Financial Year. The Board shall adopt budgets and business plans for the Company within one month after the commencement of the relevant Financial Year.
- 5.7 **Bank Accounts.** The Company and each Subsidiary shall open and maintain a bank account or bank accounts in its own name with such bank or banks as may be determined by the Board. Such account or accounts shall be operated as the Board, or the board of directors of the relevant Subsidiary, shall resolve from time to time. All payments to or by the Company or such Subsidiary shall be paid into or withdrawn from such account or accounts.
- 5.8 **Insurance.** The Company shall, and shall ensure that each Subsidiary shall, keep insured at all times and maintain insurance policies in a sufficient amount and with such coverage as are generally maintained by responsible companies in the same industry. Such policies shall be sufficient to cover liabilities to which the Company and the Subsidiaries may reasonably be considered at risk in the course of their respective businesses. Without limiting the generality of the foregoing, the Company shall, and shall ensure that each Subsidiary shall, keep insured up to the replacement value thereof (including surveyor's and architect's fees) all its properties as are of an insurable nature against fire, theft, lighting, explosion, earthquake, riot, strike, civil commotion, storm, tempest, flood, marine risks, erection risks, war risks and such other risks and shall duly pay all premium and other sums payable for those purposes. Such insurance shall be taken in the name of the Company or Subsidiary, as applicable, and any other person having an insurable interest in the property of the Company or the Subsidiary, as the case may be. The Company agrees that in the event of failure on the part of the Company or any Subsidiary to insure the properties or to pay the insurance premium or other sums referred to above, Tencent may (but shall not be obliged to) cause the properties to be insured or pay the insurance premium or other sums referred to above, as the case may be, and the Company shall promptly reimburse any expense incurred by Tencent in taking such action.

- 5.9 **Intellectual Property Protection.** The Company shall, and shall ensure that the Subsidiaries shall, take all steps promptly to protect their respective intellectual property rights, including without limitation registering all their respective trademarks, brand names and copyrights and wherever prudent applying for patents on their respective technology.
- 5.10 **Ethical Business Practices.** The Company, the Subsidiaries and their respective officers, directors, employees and agents shall engage only in legitimate business and ethical practices in commercial operations and in relation to governmental authorities. None of the Company, any Subsidiary or any of their respective officers, directors, employees or agents shall pay, offer, promise or authorize the payment, directly or indirectly, of any monies or anything of value to any government official or employee or any political party for the purpose of influencing any act or decision of such official or of any governmental authority to obtain or retain business, or direct business to any person.
- 5.11 **Subscription of Sogou Information Capital.** As soon as possible after the date hereof and in any event within one month after the date hereof, the Company shall (a) procure that Sogou Information increases its registered capital and permit Tencent Computer System Company Limited (腾讯计算机系统有限公司) (“Tencent OpCo”) to subscribe for 44.20% of Sogou Information pursuant to the Subscription Contract made among Tencent OpCo, Sogou Information and shareholders of Sogou Information on the date hereof, (b) procure that the suite of contracts between Sogou Technology and Sogou Information and/or the shareholders of Sogou Information are revised accordingly, including the termination of the existing pledge contract and the registration of the new pledge contract.
- 5.12 **Purchase of Shares from Employees.** Tencent wishes to purchase up to 3% Ordinary Shares from the employees of the Company after the date hereof. The Company shall provide assistance to Tencent in connection with such purchase, including communicating and coordinating with the employees on behalf of Tencent and providing administrative support for Tencent to complete such purchase in accordance with the memorandum separately agreed to by the Company and Tencent on the date hereof.

SECTION 6 PUBLIC OFFERING

- 6.1 **Public Offering.** It is the intention of the Parties that the Company will conduct a stand-alone IPO on an internationally recognized stock exchange as soon as practicable taking into account market conditions and the best interests of the Company. The IPO shall be a firm commitment underwritten public offering pursuant to which the market capitalization of the Company immediately prior to such public offering (determined based on price per Ordinary Share offered to the public set forth in the final prospectus with respect to such offering) is at least US\$3,000,000,000 (a “Qualified IPO”). The Parties will cooperate and use all reasonable commercial efforts to cause the Qualified IPO to be implemented in accordance with that schedule. If the Company conducts an IPO on any securities exchange in the United States of America (including offering American Depositary Receipts), the Company shall, prior to the completion of such IPO, enter into a registration rights agreement with Tencent granting Tencent registration rights that are substantially similar to, and not less beneficial to Tencent than, the rights granted to the Investors (as such term is defined in the Series A Preferred Investors’ Rights Agreement dated October 22, 2010 between the Company and other parties thereto, the “Existing Investors’ Right Agreement”) in the Existing Investors’ Right Agreement.

SECTION 7
REPRESENTATIONS AND WARRANTIES

7.1 Representations and Warranties.

- (a) Each Party represents to other Parties that:
- (i) such Party has the full power and authority to enter into, execute and deliver this Agreement and to perform the transactions contemplated hereby and, if such party is not a natural person, such Party is duly incorporated or organized and existing under the laws of the jurisdiction of its incorporation or organization;
 - (ii) the execution and delivery by such Party of this Agreement and the performance by such Party of the transactions contemplated hereby have been duly authorized by all necessary corporate or other action of such Party;
 - (iii) assuming the due authorization, execution and delivery hereof by the other Parties, this Agreement constitutes the legal, valid and binding obligation of such Party, enforceable against such Party in accordance with its terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally, and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies; and
 - (iv) the execution, delivery and performance of this Agreement by such Party and the consummation of the transactions contemplated hereby will not, (i) violate any provision of the constitutional, organizational or governance documents of such Party to the extent relevant, (ii) require such Party to obtain any consent, approval or action of, or make any filing with or give any notice to, any government authority in such Party's country of organization or any other Person pursuant to any instrument, contract or other agreement to which such Party is a party or by which such Party is bound, other than any such consent, approval, action or filing that has already been duly obtained or made, or that is permitted to be, and will be, obtained or made following the date hereof, or that is otherwise required hereunder, (iii) conflict with or result in any material breach or violation of any of the terms and conditions of, or constitute (or with notice or lapse of time or both constitute) a material default under, any instrument, contract or other agreement to which such Party is a party or by which such Party is bound, (iv) violate any law applicable to such Party that would materially and adversely affect such Party's ability to execute, deliver or perform its obligations hereunder.

- (b) Wang Xiaochuan and Rose Shadow Company Limited jointly and severally represent and warrant to each of the other Parties that Rose Shadow Company Limited is a trust established for the sole benefit of Wang Xiaochuan and that, for so long as Rose Shadow Company Limited holds Equity Securities in the Company, Rose Shadow Company Limited shall remain a trust established for the sole benefit of Wang Xiaochuan.
- (c) Hong Tao and Double Acting Investment Limited jointly and severally represent and warrant to each of the other Parties that Double Acting Investment Limited is a trust established for the sole benefit of Hong Tao and that, for so long as Double Acting Investment Limited holds Equity Securities in the Company, Double Acting Investment Limited shall remain a trust established for the sole benefit of Hong Tao.
- (d) Ru Liyun and Fast Approach Holding Limited jointly and severally represent and warrant to each of the other Parties that Fast Approach Holding Limited is a trust established for the sole benefit of Ru Liyun and that, for so long as Fast Approach Holding Limited holds Equity Securities in the Company, Fast Approach Holding Limited shall remain a trust established for the sole benefit of Ru Liyun.
- (e) Yang Hongtao and Luxury Master Limited jointly and severally represent and warrant to each of the other Parties that Luxury Master Limited is a trust established for the sole benefit of Yang Hongtao and that, for so long as Luxury Master Limited holds Equity Securities in the Company, Luxury Master Limited shall remain a trust established for the sole benefit of Yang Hongtao.
- (f) Wu Tao and Honor Source Investment Limited jointly and severally represent and warrant to each of the other Parties that Honor Source Investment Limited is a trust established for the sole benefit of Wu Tao and that, for so long as Honor Source Investment Limited holds Equity Securities in the Company, Honor Source Investment Limited shall remain a trust established for the sole benefit of Wu Tao.

**SECTION 8
NON-COMPETE**

- 8.1 Non-compete. For a period of three years after the date of this Agreement, no Shareholder shall, and each of the Shareholders shall cause their respective Affiliates not to, provide any of the following services or engage in the following business activities in competition with the Company: operate (i) any online search that provides search results that are based on algorithmically-derived relevance and/or other search methodologies in response to explicit or implicit queries through the search box on QQ PC browser and QQ's mobile browsers, or (ii) standalone PC or mobile pinyin input applications.

**SECTION 9
CONFIDENTIALITY AND RESTRICTIONS ON PUBLICITY**

- 9.1 General Obligation. Each Party undertakes to the other Parties that it shall not reveal, and that it shall procure that its directors, equity interest holders, officers, employees and agents (collectively, "Representatives") do not reveal, to any third party any Confidential Information without the prior written consent of the Company or the concerned Party, as the case may be, or use any Confidential Information in such manner that is detrimental to the Company or the concerned Party, as the case may be. The term "Confidential Information" as used in this Section 9 means, (a) any information concerning the organization, business, technology, intellectual property, safety records, investment, finance, transactions or affairs of any Party or any of their respective directors, officers or employees (whether conveyed in written, oral or in any other form and whether such information is furnished before, on or after the date of this Agreement); (b) the terms of this Agreement or any of the other transaction documents entered into in connection with Tencent's investment in the Company, including the documents referred to in this Agreement, or the identities of the Parties and their respective Affiliates; and (c) any other information or materials prepared by a Party or its Representatives that contains or otherwise reflects, or is generated from, Confidential Information.
- 9.2 Exceptions. The provisions of Section 9.1 shall not apply to:
- (a) disclosure of Confidential Information that is or becomes generally available to the public other than as a result of disclosure by or at the direction of a Party or any of the Representatives in violation of this Agreement;
 - (b) disclosure by a Party to a Representative or an Affiliate so long as such disclosure is necessary in order for that Party to perform its obligations, or exercise its rights, under this Agreement, provided that such Representative or an Affiliate (i) is under a similar obligation of confidentiality or (ii) is otherwise under a binding professional obligation of confidentiality;
 - (c) disclosure, after giving prior notice to the other Parties to the extent practicable under the circumstances and subject to any practicable arrangements to protect confidentiality, to the extent required under the rules of any stock exchange on which the shares of a Party or its parent company are listed or by applicable laws or judicial or regulatory process or in connection with any judicial process regarding any legal action, suit or proceeding arising out of or relating to this Agreement; or

(d) disclosure by a shareholder to prospective purchaser of Equity Securities, provided that such Person has executed a confidentiality agreement in such form as may be reasonably required by the Board; and provided further that if such Person is involved in a business in competition with that of the Company or any Subsidiary, the Board may prohibit the disclosure of any such confidential information as the Board may determine.

9.3 **Public Announcements.** Except as required by law, by any Governmental Authority, by any relevant stock exchange on which the shares of a Party or its parent company are listed or otherwise agreed by each Party, no publicity release or public announcement concerning the relationship or involvement of the Parties shall be made by any Party. Any Party intending to make a publicity release or public announcement in connection with this Agreement or any transaction contemplated hereunder as required by any Governmental Authority or any relevant stock exchange shall provide in advance a draft to each Party, allow reasonable time for such Parties to review the draft, and take into account all reasonable requests of the such Parties concerning the form and content of such release or announcement.

SECTION 10 TERM AND TERMINATION

10.1 **Effective Date; Termination.** This Agreement shall become effective as of the date hereof and shall continue in effect until the earlier to occur of (a) an IPO, (b) the date on which the Company goes into liquidation, and (c) any date agreed upon in writing by Sohu Search and Tencent. Notwithstanding the foregoing, the rights and obligations of a Shareholder under this Agreement shall terminate at such time as such Shareholder no longer beneficially owns any Equity Securities in the Company.

10.2 **Consequences of Termination.** If this Agreement is terminated pursuant to Section 10.1, this Agreement shall become null and void and of no further force and effect, except that the Parties shall continue to be bound by the provisions of Section 9 (Confidentiality and Restrictions on Publicity), this Section 10, Section 12.4 (No Agency), Section 12.5 (No Partnership) and Section 13 (Governing Law and Dispute Resolution). Nothing in this Section 10.2 shall be deemed to release any Party from any liability for any breach of this Agreement prior to the effective date of such termination.

SECTION 11
NOTICES

11.1 Notice Addresses and Method of Delivery. All notices, requests, demands, consents and other communications (“Notices”) required to be given by any Party to any other Party shall be in writing and delivered by hand delivery express courier, email or facsimile to the applicable Party at the address or facsimile number stated below:

- if to the Company: Sogou Inc.
Floor 4, Willow House, Cricket Square, P.O. Box
2804, Grand Cayman KY1-1112, Cayman Islands
Email: xiaochuanwang@sohu-inc.com
- with a copy to: Goulston & Storrs, P.C.
400 Atlantic Avenue
Boston, MA 02110
U.S.A
Attention: Timothy B. Bancroft
Facsimile No.: +1 617 574 7568
Email: tbancroft@goulstonstorrs.com
- If to Sohu Search: Sohu.com (Search) Limited
Floor 4, Willow House, Cricket Square, P.O. Box
2804, Grand Cayman KY1-1112, Cayman Islands
Attention: Carol Yu
Email: carol@sohu-inc.com
- with a copy to: Goulston & Storrs PC
400 Atlantic Avenue
Boston, MA 02110
Attention: Timothy B. Bancroft
Facsimile No.: +1-617-574-7568
Email: TBancroft@GOULSTONSTORRS.com
- if to Photon: Photon Group Limited
Floor 4, Willow House, Cricket Square, P.O. Box
2804, Grand Cayman KY1-1112, Cayman Islands
Email: liwei@sohu-inc.com
- if to Tencent: c/o Tencent Holdings Limited
Level 29, Three Pacific Place
1 Queen’s Road East
Wanchai, Hong Kong
Attention: Corporate Counsel
Telephone: +852 3148 5100 Ext: 68805
Facsimile No.: +852 2520 1148
E-mail: richardpu@tencent.com.hk
- with a copy to: Paul, Weiss, Rifkind, Wharton & Garrison
12th Floor, The Hong Kong Club Building,
3A Chater Road, Central,
Hong Kong
Attention: Jeanette K. Chan
Facsimile No.: +852 2840 4300
- if to Member of
Sogou Management: c/o Sohu.com Inc.
Level 12, Sohu.com Internet Plaza
No. 1 Unit Zhongguancun East Road, Haidian District
Beijing 100084, People’s Republic of China
Attention: Xiaochuan Wang
Email: xiaochuanwang@sohu-inc.com

or, as to each Party, at such other address or email address or number as shall be designated by such Party in a notice to the other Party containing the new information in the same format as the information set out above and complying as to delivery with the terms of this Section. Notwithstanding the foregoing, any notice involving non-performance or termination shall be sent by hand delivery or by prepaid express courier.

11.2 Time of Delivery. Any Notice delivered:

- (a) by hand delivery shall be deemed to have been delivered on the date of actual delivery;
- (b) by email shall be deemed to have been delivered upon confirmation of delivery;
- (c) by prepaid express courier shall be deemed to have been delivered upon delivery by the courier; and
- (d) by facsimile shall be deemed to have been delivered on the day the transmission is sent (as long as the sender has a confirmation report specifying a facsimile, a facsimile number of the recipient, the number of pages sent and the date of the transmission).

11.3 Proof of Delivery. In proving delivery of any Notice it shall be sufficient:

- (a) in the case of delivery by hand delivery or courier, to prove that the Notice was properly addressed and delivered;
- (b) in the case of delivery by email, to prove that the transmission was confirmed as sent by the originating email account to the email address of the recipient, on the date specified; and
- (c) in the case of delivery by facsimile transmission, to prove that the transmission was confirmed as sent by the originating machine to the facsimile number of the recipient, on the date specified.

SECTION 12 MISCELLANEOUS

12.1 Legend. Each certificate for any Shares now held or hereafter acquired by any Shareholder shall, for as long as this Agreement is effective, bear a legend as follows:

“Sogou Inc. (the “Company”) is an exempted company incorporated under the laws of the Cayman Islands, and the shares represented by this certificate shall not be sold, assigned, transferred, exchanged, mortgaged, pledged or otherwise disposed of or encumbered without compliance with the provisions of that certain Shareholders’ Agreement among the Company and the shareholders of the Company named therein or subsequently adhering thereto. A copy of such Shareholders’ Agreement is on file at the principal offices of the Company. The Company will not register the transfer of such shares on its register of members unless and until the transfer has been made in compliance with the terms of such Shareholders’ Agreement.”

- 12.2 **Discrepancies.** If there is any discrepancy between any provision of this Agreement and any provision of the Charter Documents or the charter documents of any Subsidiary, the provisions of this Agreement shall prevail, and the Parties shall procure that the Charter Documents or the charter documents of the relevant Subsidiary, as the case may be, are promptly amended, to the extent permitted by applicable law, in order to conform with this Agreement.
- 12.3 **Assignment.** This Agreement shall inure to the benefit of, and be binding upon, the successors and Persons to whom a Shareholder transfers Equity Securities in the Company in a Transfer permitted under this Agreement, provided that in each case such Person signs a Joinder substantially in the form attached hereto as **Exhibit A.**
- 12.4 **No Agency.** No Shareholder, acting solely in its capacity as a Shareholder, shall act as an agent of the Company or have any authority to act for or to bind the Company, except as authorized by the Board. For the purposes of this Section, unless acting expressly solely in its capacity as a Shareholder, any Shareholder who is a director or officer or employee of any Group Company acting in the ordinary course of business of any Group Company shall be conclusively deemed to act for and on behalf of, and shall not be regarded as acting as an agent of, any Group Company. Any Shareholder that takes any action or binds the Company in violation of this Section shall be solely responsible for, and shall indemnify the Company and each other Shareholder against, any losses, claims, damages, liabilities, judgments, fines, obligations, expenses and liabilities of any kind or nature whatsoever (including any investigative, legal and other expenses reasonably incurred in connection with, and any amounts paid in settlement of, any pending or threatened legal action or proceeding) that the Company, or such other Shareholders, as the case may be, may at any time become subject to or liable for by reason of such violation.
- 12.5 **No Partnership.** The Shareholders expressly do not intend hereby to form a partnership, either general or limited, under any jurisdiction's partnership law. The Shareholders do not intend to be partners one to another, or partners as to any third party, or create any fiduciary relationship among themselves, by virtue of their status as Shareholders. To the extent that any Shareholder, by word or action, represents to another Person that any Shareholder is a partner or that the Company is a partnership, the Shareholder making such representation shall be liable to any other Shareholders that incur any losses, claims, damages, liabilities, judgments, fines, obligations, expenses and liabilities of any kind or nature whatsoever (including any investigative, legal or other expenses reasonably incurred in connection with, and any amount paid in settlement of, any pending or threatened legal action or proceeding) arising out of or relating to such representation.

- 12.6 Amendment. This Agreement may be amended, modified or supplemented with the written instrument executed by Sogou, Sohu Search and Tencent, and any such amendment shall be valid and binding on all Parties.
- 12.7 Waiver. No waiver of any provision of this Agreement shall be effective unless set forth in a written instrument signed by the Party waiving such provision. No failure or delay by a Party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by a Party of any breach by any other Party of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.
- 12.8 Entire Agreement. This Agreement represents the entire understanding and constitutes the whole agreement among the Parties relating to the subject matter hereof and supersedes any prior agreements or understandings relating to such subject matter.
- 12.9 Severability. Each and every obligation under this Agreement shall be treated as a separate obligation and shall be severally enforceable as such and in the event of any obligation or obligations being or becoming unenforceable in whole or in part. To the extent that any provision or provisions of this Agreement are unenforceable they shall be deemed to be deleted from this Agreement, and any such deletion shall not affect the enforceability of this Agreement as remain not so deleted.
- 12.10 Counterparts. This Agreement may be executed in any number of counterparts and by the Parties in separate counterparts, including counterparts transmitted by facsimile or by e-mails, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Except as otherwise specified, this Agreement shall become legally binding at the time of execution of the last such counterpart and shall have effect from the date first above written.
- 12.1 Consent to Specific Performance. The Parties declare that it may be impossible to measure in money the damages that would be suffered by a Party by reason of the failure by the other Parties to perform any of the obligations hereunder. Therefore, if any Party shall institute any action or proceeding to enforce the provisions hereof, the Party against whom such action or proceeding is brought hereby waives any claim or defense therein that the other Parties has an adequate remedy at law.
- 12.2 Consent. Any consent required under this Agreement shall be valid and effective only if given in writing.

SECTION 13
GOVERNING LAW AND DISPUTE RESOLUTION

- 13.1 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF NEW YORK WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW THEREOF THAT WOULD APPLY THE LAWS OF ANOTHER JURISDICTION.
- 13.2 Arbitration.
- (a) Any dispute, controversy or claim arising out of, in connection with or relating to this Agreement (or the interpretation, breach, termination or validity thereof) shall be resolved through arbitration. A dispute may be submitted to arbitration upon the request of any Party with written notice to the other Parties (the "Arbitration Notice").
 - (b) The arbitration shall be conducted in Hong Kong and administered by the Hong Kong International Arbitration Centre (the "HKIAC") under the UNCITRAL Arbitration Rules in force at the time of the initiation of the arbitration. There shall be three arbitrators. The claimants to the dispute shall collectively choose one arbitrator, and the respondents shall collectively choose one arbitrator, within 30 days after the delivery of the Arbitration Notice to the other Parties. Both arbitrators shall agree on the third arbitrator within 30 days of their appointment. If any of the members of the arbitral tribunal have not been appointed within 30 days after the Arbitration Notice is given, the relevant appointment shall be made by the Secretary General of the HKIAC. The arbitration shall be conducted in English.
 - (c) Each Party shall cooperate with the other in making full disclosure of and providing complete access to all information and documents requested by the other in connection with such arbitration proceedings, subject only to any doctrine of legal privilege or any confidentiality obligations binding on such Party.
 - (d) The costs of arbitration shall be borne by the losing Party, unless otherwise determined by the arbitration tribunal.
 - (e) When any dispute occurs and when any dispute is under arbitration, except for the matters in dispute, the Parties shall continue to fulfill their respective obligations and shall be entitled to exercise their rights under this Agreement.
 - (f) The award of the arbitration tribunal shall be final and binding upon the Parties, and the prevailing Party may apply to a court of competent jurisdiction for enforcement of such award.
 - (g) Any Party shall be entitled to seek preliminary injunctive relief from any court of competent jurisdiction pending the constitution of the arbitration tribunal.

13.3 If an arbitration panel has already been formed under the Subscription Agreement or any other ancillary agreement and is in existence at the time a demand for arbitration is made under this Agreement, the Parties shall submit the dispute to the same panel.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

SOGOU INC.

By: _____
Name:
Title:

SOHU.COM (SEARCH) LIMITED

By: _____
Name:
Title:

PHOTON GROUP LIMITED

By: _____
Name:
Title:

THL A21 LIMITED

By: _____
Name:
Title:

WANG XIAOCHUAN

By: _____

ROSE SHADOW COMPANY LIMITED

By: _____
Name:
Title:

HONG TAO

By: _____

DOUBLE ACTING INVESTMENT LIMITED

By: _____
Name:
Title:

RU LIYUN

By: _____

FAST APPROACH HOLDING LIMITED

By: _____
Name:
Title:

YANG HONGTAO

By: _____

LUXURY MASTER LIMITED

By: _____
Name:
Title:

WU TAO

By: _____

HONOR SOURCE INVESTMENT LIMITED

By: _____
Name:
Title:

EXHIBIT A

JOINDER

Reference is made to the [[transfer document], dated [] between [transferor] (the "Transferor") and the undersigned, pursuant to which the Transferor shall sell to the undersigned, and the undersigned shall purchase from the Transferor/the Company, [number of type of shares] of [] for consideration equal to [consideration] **OR** [issuance of shares from Sogou Inc to the undersigned]. It is a condition to the completion of such sale and purchase/issuance that the undersigned become a party to that certain Shareholders' Agreement, dated September [], 2013 among Sogou Inc., Sohu.com (Search) Limited, THL A21 Limited, Photon Group Limited and others (the "Shareholders' Agreement").

Accordingly, by execution of this joinder, the undersigned ratifies and shall become a party to the Shareholders' Agreement, and shall be fully bound by, and subject to, all of the covenants, terms and conditions of the Shareholders' Agreement as though an original party thereto and shall be deemed a Shareholder/Member of Sogou Management¹ (as defined in the Shareholders' Agreement) for all purposes thereunder. The undersigned authorizes this signature page to be attached to and made part of the Shareholders' Agreement.

The address of the undersigned for purposes of all notices under the Shareholders' Agreement is: []

IN WITNESS WHEREOF, the parties have caused this Joinder to be executed on , .

SOGOU, INC.

By: _____
Name:
Title:

[NAME OF NEW SHAREHOLDER]

By: _____
Name:
Title:

¹ To insert as appropriate

Company No.: 160089

FIFTH AMENDED AND RESTATED

MEMORANDUM¹

AND

SECOND AMENDED AND RESTATED

ARTICLES OF ASSOCIATION²

OF

SOGO INC.

¹ (Amended and restated by special resolution dated September 16, 2013)

² (Amended and restated by special resolution dated September 16, 2013)

Incorporated on the 23rd day of December, 2005

INCORPORATED IN THE CAYMAN ISLANDS

THE COMPANIES LAW (REVISED)
EXEMPT COMPANY LIMITED BY SHARES

FIFTH AMENDED AND RESTATED
MEMORANDUM OF ASSOCIATION
OF
SOGOUC INC.

(Adopted by a special resolution passed on September 16, 2013)

1. The name of the company is Sogou Inc. (the "Company").
2. The Registered office of the Company shall be at the offices of Offshore Incorporations (Cayman) Limited, Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands, or at such other place as the directors may from time to time decide.
3. Subject to the following provisions of this Fifth Amended and Restated Memorandum of Association (as from time to time amended, this "Memorandum"), the objects for which the Company is established are unrestricted and shall include, but without limitation:
 - (a) To carry on the business of an investment company and to act as promoters and entrepreneurs and to carry on business as financiers, capitalists, concessionaires, merchants, brokers, traders, dealers, agents, importers and exporters and to undertake and carry on and execute all kinds of investment, financial, commercial, mercantile, trading and other operations.
 - (b) To carry on whether as principals, agents or otherwise howsoever the business of realtors, developers, consultants, estate agents or managers, builders, contractors, engineers, manufacturers, dealers in or vendors of all types of property including services.
 - (c) To exercise and enforce all rights and powers conferred by or incidental to the ownership of any shares, stock, obligations or other securities including without prejudice to the generality of the foregoing all such powers of veto or control as may be conferred by virtue of the holding by the Company of some special proportion of the issued or nominal amount thereof, to provide managerial and other executive, supervisory and consultant services for or in relation to any company in which the Company is interested upon such terms as may be thought fit.
 - (d) To purchase or otherwise acquire, to sell, exchange, surrender, lease, mortgage, charge, convert, turn to account, dispose of and deal with real and personal property and rights of all kinds and, in particular, mortgages, debentures, produce, concessions, options, contracts, patents, annuities, licenses, stocks, shares, bonds, policies, book debts, business concerns, undertakings, claims, privileges and choses in action of all kinds.
 - (e) To subscribe for, conditionally or unconditionally, to underwrite, issue on commission or otherwise, take, hold, deal in and convert stocks, shares and securities of all kinds and to enter into partnership or into any arrangement for sharing profits, reciprocal concessions or cooperation with any person or company and to promote and aid in promoting, to constitute, form or organize any company, syndicate or partnership of any kind, for the purpose of acquiring and undertaking any property and liabilities of the Company or of advancing, directly or indirectly, the objects of the Company or for any other purpose which the Company may think expedient.

- (f) To stand surety for or to guarantee, support or secure the performance of all or any of the obligations of any person, firm or company whether or not related or affiliated to the Company in any manner and whether by personal covenant or by mortgage, charge or lien upon the whole or any part of the undertaking, property and assets of the Company, both present and future, including its uncalled capital or by any such method and whether or not the Company shall receive valuable consideration thereof.
- (g) To engage in or carry on any other lawful trade, business or enterprise which may at any time appear to the Directors of the Company capable of being conveniently carried on in conjunction with any of the aforementioned businesses or activities or which may appear to the Directors or the Company likely to be profitable to the Company.

In the interpretation of this Memorandum in general and of this paragraph 3 in particular, no object, business or power specified or mentioned shall be limited or restricted by reference to or inference from any other object, business or power, or the name of the Company, or by the juxtaposition of two or more objects, businesses or powers and that, in the event of any ambiguity in this paragraph 3 or elsewhere in this Memorandum, the same shall be resolved by such interpretation and construction as will widen and enlarge and not restrict the objects, businesses and powers of and exercisable by the Company.

- 4. Subject to the following provisions of this Memorandum, the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided by Section 27(2) of The Companies Law (Revised).
- 5. Nothing in this Memorandum shall permit the Company to carry on a business for which a license is required under the laws of the Cayman Islands unless duly licensed.
- 6. The Company shall not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands; provided, that nothing in this clause shall be construed as to prevent the Company effecting and concluding contracts in the Cayman Islands, and exercising in the Cayman Islands all of its powers necessary for the carrying on of its business outside the Cayman Islands.
- 7. The liability of each member is limited to the amount from time to time unpaid on such member's shares.
- 8. The authorized share capital of the Company is US\$621,600, made up of 621,600,000 shares divided into:
 - (a) 400,000,000 class A ordinary shares with a par value of US\$0.001 each (the "Class A Ordinary Shares");
 - (b) 79,368,421 class B ordinary shares with a par value of US\$0.001 each (the "Class B Ordinary Shares");
 - (c) 76,800,000 series A preferred shares with a par value of US\$0.001 each (the "Series A Preferred Shares"); and
 - (d) 65,431,579 series B preferred shares with a par value of US\$0.001 each (the "Series B Preferred Shares"),

with power for the Company insofar as is permitted by law to redeem or purchase any of its shares and to increase or reduce the share capital and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that, unless the conditions of issue otherwise expressly declare, every issue of shares whether stated to be preference or otherwise shall be subject to the powers hereinbefore contained.

9. The Company may exercise the power contained in The Companies Law (Revised) to deregister in the Cayman Islands and be registered by way of continuation in another jurisdiction.
10. For purpose of this Memorandum, the following terms shall have the meanings set forth below:
- “Basic Documents” has the meaning set out in the Shareholders Agreement.
- “Control” of a Person means (a) ownership of more than 50% of the shares in issue or other equity interests or registered capital of such Person or (b) the power to direct the management or policies of such Person, whether through the ownership of more than 50% of the voting power of such Person, through the power to appoint a majority of the members of the board of directors or similar governing body of such Person, through contractual arrangements or otherwise. The terms “Controlled” and “Controlling” have meanings correlative to the foregoing.
- “Group Companies” means, collectively, the Company and its Subsidiaries.
- “Ordinary Shares” means the Class A Ordinary Shares and the Class B Ordinary Shares or any or either of them, as the case may be.
- “Person” means any individual, corporation, partnership, limited partnership, proprietorship, association, limited liability company, firm, trust, estate or other enterprise or entity.
- “PRC” means the People’s Republic of China, excluding the Hong Kong and Macau Special Administrative Regions and Taiwan.
- “Preferred Shares” means the Series A Preferred Shares and the Series B Preferred Shares or any or either of them, as the case may be.
- “Principal Business” means the principal business of the Company, which shall be the provision via personal computers and mobile devices of Internet search services, pinyin input module services, contextual advertising services, online games and web directory services, and such other businesses and activities and investments as may be approved by the Shareholders from time to time in accordance with this Memorandum.
- “Qualified IPO” means a firm commitment underwritten public offering pursuant to which the market capitalization of the Company immediately prior to such public offering (determined based on price per Ordinary Share offered to the public set forth in the final prospectus with respect to such offering) is at least US\$3,000,000,000.
- “Shareholders Agreement” means the shareholders agreement entered into on September 16, 2013 among the Company and certain shareholders.
- “Subsidiary” means, with respect to any specified Person, any other Person Controlled by the specified Person, directly or indirectly, whether through contractual arrangements or through ownership of equity securities, voting power or registered capital. For the avoidance of the doubt, a “variable interest entity” controlled by another entity shall be deemed a Subsidiary of that other entity, and shall include, for the Company, Beijing Sogou Information Services Co., Ltd. (北京搜狐信息服务有限公司), a company organized and existing under the laws of the PRC (“Sogou Information”).

“**VIE Control Documents**” means the suite of contracts between the wholly-owned subsidiary of the Company and the Company’s “variable interest entity” or the shareholders of such “variable interest entity”, including (1) an Exclusive Technology Consulting and Service Agreement entered into by Beijing Sogou Technology Development Co., Ltd. (北京搜狐科技发展有限公司), a wholly-foreign owned enterprise organized and existing under the laws of the PRC and an indirectly wholly-owned subsidiary of the Company (“**Sogou Technology**”) and Sogou Information dated September 26, 2010, (2) a Business Operation Agreement entered into by Sogou Technology, Sogou Information and the shareholders of Sogou Information dated September 26, 2010, (3) an Exclusive Equity Interest Purchase Rights Agreement entered into by Sogou Technology, Sogou Information and the shareholders of Sogou Information dated September 26, 2010, (4) a Share Pledge Agreement entered into by Sogou Technology (as the pledgee), and the shareholders of Sogou Information (as the pledgors) dated September 26, 2010, (5) a Loan Agreement dated September 26, 2010 by Sogou Technology and each of the shareholders of Sogou Information.

11. The shares of the Company shall have the following rights and restrictions:

(A) **Rights, Preferences and Restrictions of the Preferred Shares.** The rights, preferences and restrictions granted to and imposed on the Preferred Shares are as set forth below in this paragraph 11(A):

(1) **Dividend Rights.**

(a) **Series B Preferred Shares.** From and after the date of the issuance of any Series B Preferred Shares, dividends at the rate per annum of US\$0.411 per share shall accrue on such Series B Preferred Shares (subject to appropriate adjustment in the event of any share dividend, share split, combination or other similar recapitalization with respect to the Series B Preferred Shares) (the “**Accruing B Dividends**”).

(b) **Series A Preferred Shares.** From and after the date of the issuance of any Series A Preferred Shares, dividends at the rate per annum of US\$0.0375 per share shall accrue on such Series A Preferred Shares (subject to appropriate adjustment in the event of any share dividend, share split, combination or other similar recapitalization with respect to the Series A Preferred Shares) (the “**Accruing A Dividends**”, together with the Accruing B Dividends, the “**Accruing Dividends**”). In addition to and not by way of limitation of the foregoing provisions of this paragraph, the Board may, in its sole discretion, declare and cause the Company to pay and set aside a one-time cash dividend on the Series A Preferred Shares (the “**2013 Special Dividend**”), to be paid in 2013, in such amount as the Board may determine, from the Company’s profits or share premium account, without declaring, setting aside or paying any dividend on the Series B Preferred Shares or Ordinary Shares, provided that if the 2013 Special Dividend is declared and any holder or holders of Series A Preferred Shares waive receipt of any portion of the 2013 Special Dividend it or they would otherwise be entitled to receive, such portion shall be available for distribution pro rata to other holders of Series A Preferred Shares without declaration by the Board.

- (c) Accruing Dividends. Accruing Dividends shall accrue from day to day, whether or not declared; provided, however, that such Accruing Dividends shall be payable only as set forth in the following sentence of this paragraph 11(A)(1)(c) or in paragraph 11(A)(2). The Company shall not declare, pay or set aside any dividends on the Ordinary Shares of the Company (other than dividends on Ordinary Shares payable in Ordinary Shares) or, if applicable, any other shares of capital of the Company (whether in cash, in property, or in any other equity securities of the Company) unless (in addition to the obtaining of any consents required elsewhere in this Memorandum) the holders of the Preferred Shares then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding Preferred Share in an amount at least equal to the sum of (i) the amount of the aggregate applicable Accruing Dividends then accrued on such Preferred Share and not previously paid and (ii) (A) in the case of a dividend on Ordinary Shares or any class or series that is convertible into Ordinary Shares, that dividend per Preferred Share as would equal the product of (1) the dividend payable on each share of such class or series determined, if applicable, as if all shares of such class or series had been converted into Ordinary Shares and (2) the number of Ordinary Shares issuable upon conversion of a Preferred Share, in each case calculated on the record date for determination of holders entitled to receive such dividend or (B) in the case of a dividend on any class or series that is not convertible into Ordinary Shares, at a rate per Preferred Share determined by (1) dividing the amount of the dividend payable on each share of such class or series of share capital by the original issuance price of such class or series of share capital (subject to appropriate adjustment in the event of any share dividend, share split, combination or other similar recapitalization with respect to such class or series) and (2) multiplying such fraction by an amount equal to the Series A Original Issue Price or the Series B Reference Price (each, as defined below); provided, that, if the Company declares, pays or sets aside, on the same date, a dividend on shares of more than one class or series of share capital of the Company, the dividend payable to the holders of Preferred Shares pursuant to this paragraph 11(A)(1) shall be calculated based upon the dividend on the class or series of share capital that would result in the highest Preferred Share dividend. The “Series B Reference Price” shall mean US\$7.267 per share, and the “Series A Original Issue Price” shall mean US\$0.625 per share, each subject to appropriate adjustment in the event of any share dividend, share split, combination or other similar recapitalization with respect to the Preferred Shares.
- (d) Order of Payment. The Accruing B Dividends and the Accruing A Dividends shall rank on a pari passu basis.

(2) Liquidation Rights.

- (a) Payments to Holders of Series B Preferred Shares. In the event of any Liquidation Event (as defined below), the holders of Series B Preferred Shares then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its members before any payment is made to the holders of the Series A Preferred Shares or the Ordinary Shares by reason of their ownership thereof, an amount per share equal to the greater of (i) US\$6.847 (the “ Series B Liquidation Preference Price”, subject to appropriate adjustment in the event of any share dividend, share split, combination or other similar recapitalization with respect to the Series B Preferred Shares) plus any Accruing B Dividends accrued but unpaid thereon, whether or not declared, together with any other dividends declared but unpaid thereon or (ii) such amount per share as would have been payable had all Series B Preferred Shares been converted into Ordinary Shares pursuant to paragraph 11(A)(4) immediately prior to such Liquidation Event and the assets of the Company available for distribution to its members were distributed to its members ratably on the basis of the number of Ordinary Shares that each member holds on an as-converted basis. Following the payment in full of such amount, the holders of Series B Preferred Shares shall not be entitled to any further distributions in respect of their Series B Preferred Shares. If upon any such Liquidation Event, the assets of the Company available for distribution to its members are insufficient to pay the holders of Series B Preferred Shares the full amount to which they are entitled under this paragraph 11(A)(2)(a), the holders of Series B Preferred Shares shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

- (b) Payments to Holders of Series A Preferred Shares. In the event of any Liquidation Event, the holders of Series A Preferred Shares then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its members, after payment to the holders of the Series B Preferred Shares but before any payment is made to the holders of Ordinary Shares by reason of their ownership thereof, an amount per share equal to the greater of (i) the Series A Original Issue Price multiplied by one-point-three (1.3), plus any Accruing A Dividends accrued but unpaid thereon, whether or not declared, together with any other dividends declared but unpaid thereon or (ii) such amount per share as would have been payable had all Series A Preferred Shares been converted into Ordinary Shares pursuant to paragraph 11(A)(4) immediately prior to such Liquidation Event and the assets of the Company available for distribution to its members were distributed to its members ratably on the basis of the number of Ordinary Shares that each member holds on an as-converted basis. Following the payment in full of such amount, the holders of Series A Preferred Shares shall not be entitled to any further distributions in respect of their Series A Preferred Shares. If upon any such Liquidation Event, the assets of the Company available for distribution to its members are insufficient to pay the holders of Series A Preferred Shares the full amount to which they are entitled under this paragraph 11(A)(2)(b), the holders of Series A Preferred Shares shall share ratably in any distribution of the assets available for distribution in proportion to the respective amounts which would otherwise be payable in respect of the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.
- (c) Payments to Holders of Ordinary Shares. In the event of any Liquidation Event, after the payment of all preferential amounts required to be paid to the holders of Preferred Shares in accordance with paragraphs 11(A)(2)(a) and 11(A)(2)(b), the remaining assets of the Company available for distribution to its members shall be distributed among the holders of Ordinary Shares, pro rata based on the number of shares held by each such holder.
- (d) Reorganization or Merger.
- (i) For purposes of this paragraph 11(A), each of the following events shall be considered a “Liquidation Event” unless the holders of (x) at least a majority of the then outstanding Series B Preferred Shares, and (y) at least a majority of the then outstanding Series A Preferred Shares, each voting as a separate class, elect otherwise by written notice sent to the Company at least ten (10) days prior to the effective date of any such event:
- (A) a voluntary or involuntary liquidation, dissolution or winding up of the Company;
- (B) a merger or consolidation, in which (I) the Company is a constituent party or (II) another Group Company is a constituent party and the Company issues shares pursuant to such merger or consolidation, except any such merger or consolidation involving the Company or another Group Company in which the shares of the Company outstanding immediately prior to such merger or consolidation continue to represent, or are converted into or exchanged for shares that represent, immediately following such merger or consolidation, at least a majority, by voting power, of the share capital of (1) the surviving or resulting corporation or (2) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation (provided, that, for the purpose of this paragraph 11(A)(2)(d)(i), all Ordinary Shares issuable upon exercise of Options (as defined below) outstanding immediately prior to such merger or consolidation or upon conversion of Convertible Securities (as defined below) outstanding immediately prior to such merger or consolidation shall be deemed to be outstanding immediately prior to such merger or consolidation and, if applicable, converted or exchanged in such merger or consolidation on the same terms as the actual outstanding Ordinary Shares are converted or exchanged);

- (C) the sale, lease, transfer, license or other disposition, in a single transaction or series of related transactions, by the Company and/or any other Group Company of all or substantially all the assets of the Company and the other Group Companies taken as a whole, or the sale or disposition (whether by merger or otherwise) of one or more Group Companies if substantially all of the assets of the Company and the other Group Companies taken as a whole are held by such Group Company or Group Companies, except where such sale, lease, transfer, license or other disposition is to a wholly owned Subsidiary of the Company. For the avoidance of doubt, the license to any Person other than a Group Company of any technologies or intellectual properties of the Company or any of the other Group Companies that (I) is necessary for the conduct of the business of the Group Companies and (II) is not in ordinary course of business and consistent with past practice will be deemed a “Liquidation Event”; or
 - (D) the sale, exchange or transfer by the Company’s members of direct or indirect voting control of the Company or of any other material Group Companies, in a single transaction or series of related transactions; provided, that the sale, exchange or transfer by the holders of voting securities of any Shareholder of voting control of such Shareholder will not be considered a Liquidation Event.
- (ii) In any such Liquidation Event, if the consideration received by the Company or its members is other than cash, its value will be deemed its fair market value determined in good faith by the Board of Directors of the Company (including at least one Series B Director) at the closing of such Liquidation Event. Any securities shall be valued as follows:
- (A) Securities not subject to investment letter or other similar restrictions on free marketability covered by (B) below:
 - (I) if traded on a securities exchange, the value shall be deemed to be the average of the closing prices of the securities on such exchange over the twenty (20) trading-day period ending three (3) trading days prior to the closing of such Liquidation Event;
 - (II) if actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever is applicable) over the twenty (20) trading-day period ending three (3) trading days prior to the closing of such Liquidation Event; and
 - (III) if there is no active public market, the value shall be the fair market value thereof, as determined in good faith by the Board of Directors of the Company; provided, that the holders of Preferred Shares shall be informed of such determination at least twenty (20) days prior to the consummation of such Liquidation Event, and any holder of a Preferred Share may challenge such determination by delivery of written notice to the Company no later than fifteen (15) days after receipt of notice from the Company of the Board’s determination. In the event that any holder of Preferred Shares challenges such determination within such period, the final valuation shall be determined in accordance with clause 11(A)(2)(d)(ii)(C) below.
 - (B) The method of valuation of securities subject to investment letter or other restrictions on free marketability (other than restrictions arising solely by virtue of a member’s status as an affiliate or former affiliate) shall be to make an appropriate discount from the market value determined as above in (A)(I), (II) or (III) to reflect the approximate fair market value thereof, as determined in good faith by the Board of Directors of the Company; provided, that the holders of Preferred Shares shall be informed of such determination at least twenty (20) days prior to the consummation of such Liquidation Event, and any holder of Preferred Shares may challenge such determination by delivery of written notice to the Company no later than fifteen (15) days after receipt of notice from the Company of the Board’s determination. In the event that any holder of Preferred Shares challenges such determination within such period, the final valuation shall be determined in accordance with clause 11(A)(2)(d)(ii)(C) below.

(C) In the event that any holder of Preferred Shares challenges a Board determination of fair market value pursuant to clause 11(A)(2)(d)(ii)(A) or (B) above, such determination shall be made by an internationally recognized appraisal company selected by the Board of Directors of the Company (including at least one (1) Series B Director), with the cost of such appraisal to be borne fifty percent (50%) by the Company and fifty percent (50%) by the holder(s) of Preferred Shares that challenged such Board determination.

(iii) In the event the requirements of this paragraph 11(A)(2) are not complied with, the Company shall forthwith either:

(A) cause the closing of such Liquidation Event to be postponed until such time as the requirements of this paragraph 11(A)(2) have been complied with; or

(B) cancel such transaction, in which event the rights, preferences and privileges of the holders of the Preferred Shares shall revert to and be the same as such rights, preferences and privileges existing immediately prior to the date of the first notice referred to in paragraph 11(A)(2)(d)(iv) below.

(iv) The Company shall give each holder of record of Preferred Shares written notice of such impending Liquidation Event not later than twenty (20) days prior to the members' meeting called to approve such transaction, or twenty (20) days prior to the closing of such transaction, whichever is earlier, and shall also notify such holders in writing of the final approval of such transaction. The first of such notices shall describe the material terms and conditions of the impending transaction, and the Company shall thereafter give such holders prompt notice of any material changes related thereto. The transaction shall in no event take place sooner than twenty (20) days after the Company has given the first notice provided for herein or sooner than ten (10) days after the Company has given notice of any material changes provided for herein; provided, however, that such periods may be shortened or waived upon the written consent of (x) the holders of Series B Preferred Shares that represent at least a majority of the voting power, if any, of all then outstanding Series B Preferred Shares, and (y) the holders of Series A Preferred Shares that represent at least a majority of the voting power, if any, of all then outstanding Series A Preferred Shares (each voting together as a separate class).

(3) Redemption. The Preferred Shares are not redeemable at the option of the holder.

(4) Optional Conversion. The holders of the Preferred Shares shall have conversion rights as follows (the "Conversion Rights"):

(a) Right to Convert.

(i) Conversion Ratio. Each Preferred Share shall be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into such number of fully paid and non-assessable Class A Ordinary Shares as is determined by (x) dividing the Series B Reference Price by the Series B Conversion Price (as defined below) in effect at the time of conversion, or (y) the Series A Original Issue Price by the Series A Conversion Price (as defined below) in effect at the time of conversion, as applicable. The "Series B Conversion Price" shall initially be equal to US\$7.267 and the "Series A Conversion Price" shall initially be equal to US\$0.625. Such initial Series B Conversion Price and Series A Conversion Price, and the rate at which Series B Preferred Shares and Series A Preferred Shares may be converted into Class A Ordinary Shares, shall be subject to adjustment as provided below.

- (ii) **Termination of Conversion Rights.** In the event of a Liquidation Event, the holders of Preferred Shares shall not be entitled to exercise their Conversion Rights after the close of business on the last full business day preceding the date fixed for the payment of any such amounts distributable on such event to the holders of Preferred Shares; provided, that such holders will have the right to exercise such Conversion Rights thereafter if all distributions such holders are entitled to on such event have not been distributed within five (5) calendar days thereafter.
- (b) **Fractional Shares.** No fractional Class A Ordinary Shares will be issued upon conversion of the Preferred Shares. In lieu of any fractional shares to which the holder would otherwise be entitled, the Company shall pay cash equal to such fraction multiplied by the fair market value of a Class A Ordinary Share as determined in good faith by the Board of Directors of the Company. Whether or not fractional shares would be issuable upon such conversion shall be determined on the basis of the total number of Preferred Shares the holder is at the time converting into Class A Ordinary Shares and the aggregate number of Class A Ordinary Shares issuable upon such conversion.
- (c) **Mechanics of Conversion.**
- (i) **Notice of Conversion.** In order for a holder of Preferred Shares to voluntarily convert Preferred Shares into Class A Ordinary Shares, such holder shall surrender the certificate or certificates for such Preferred Shares (or, if such registered holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Company to indemnify the Company against any claim that may be made against the Company on account of the alleged loss, theft or destruction of such certificate), at the office of the transfer agent for the Preferred Shares (or at the principal office of the Company if the Company serves as its own transfer agent), together with written notice that such holder elects to convert all or any number of the Preferred Shares represented by such certificate or certificates and, if applicable, any event on which such conversion is contingent. Such notice shall state such holder's name or the names of the nominees in which such holder wishes the certificate or certificates for Class A Ordinary Shares to be issued. If required by the Company, certificates surrendered for conversion shall be endorsed or accompanied by a written instrument or instruments of transfer, in form satisfactory to the Company, duly executed by the registered holder or his, her or its attorney duly authorized in writing. The close of business on the date of receipt by the transfer agent (or by the Company if the Company serves as its own transfer agent) of such certificates (or lost certificate affidavit and agreement) and notice shall be the time of conversion (the "Conversion Time"), and the Class A Ordinary Shares issuable upon conversion of the shares represented by such certificate shall be deemed to be outstanding of record as of such date. The Company shall, as soon as practicable after the Conversion Time, (i) issue and deliver to such holder of Preferred Shares, or to his, her or its nominees, a certificate or certificates for the number of full Class A Ordinary Shares issuable upon such conversion in accordance with the provisions hereof and a certificate for the number (if any) of the Preferred Shares represented by the surrendered certificate that were not converted into Ordinary Shares, (ii) pay in cash such amount as provided in paragraph 11(A)(4)(b) in lieu of any fraction of a Class A Ordinary Share otherwise issuable upon such conversion and (iii) pay all declared but unpaid dividends (but not any undeclared Accruing A Dividends or Accruing B Dividends, as applicable) on the Preferred Shares converted.

- (ii) Reservation of Shares. The Company shall at all times when any Preferred Shares are outstanding, reserve and keep available out of its authorized but unissued capital shares, for the purpose of effecting the conversion of the Preferred Shares, such number of its duly authorized Class A Ordinary Shares as from time to time is sufficient to effect the conversion of all outstanding Preferred Shares; and if at any time the number of authorized but unissued Class A Ordinary Shares is not sufficient to effect the conversion of all then outstanding Preferred Shares, the Company shall take such corporate action as may be necessary to increase its authorized but unissued Class A Ordinary Shares to such number of shares as is sufficient for such purposes, including, without limitation, engaging in best efforts to obtain the requisite member approval of any necessary amendment to this Memorandum or the Articles of Association of the Company. Before taking any action which would cause an adjustment reducing the Series B Conversion Price or Series A Conversion Price below the then par value of the Class A Ordinary Shares issuable upon conversion of any Preferred Share, the Company will take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and non-assessable Class A Ordinary Shares at such adjusted Series B Conversion Price or Series A Conversion Price.
 - (iii) Effect of Conversion. All Preferred Shares which shall have been surrendered for conversion as herein provided shall no longer be deemed to be outstanding and all rights with respect to such shares shall immediately cease and terminate at the Conversion Time, except only the right of the holders thereof to receive Class A Ordinary Shares in exchange therefor, to receive payment in lieu of any fraction of a share otherwise issuable upon such conversion as provided in paragraph 11(A)(4)(b) and to receive payment of any dividends declared but unpaid thereon (but not any undeclared Accruing A Dividends or Accruing B Dividends). Any Preferred Shares so converted shall be retired and cancelled and may not be reissued as shares of such series, and the Company may thereafter take such appropriate action (without the need for member action) as may be necessary to reduce the authorized number of Preferred Shares accordingly.
 - (iv) No Further Adjustment. Upon any conversion to Class A Ordinary Shares, no adjustment to the Series A Conversion Price or Series B Conversion Price shall be made for any declared but unpaid dividends on the Series A Preferred Shares or Series B Preferred Shares surrendered for conversion or on the Class A Ordinary Shares delivered upon conversion.
 - (v) Taxes. The Company shall pay any and all issue and other similar taxes that may be payable in respect of any issuance or delivery of Class A Ordinary Shares upon conversion of Preferred Shares pursuant to this paragraph 11(A)(4). The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of Class A Ordinary Shares in a name other than that in which the Series A Preferred Shares so converted were registered, and no such issuance or delivery shall be made unless and until the person or entity requesting such issuance has paid to the Company the amount of any such tax or has established, to the satisfaction of the Company, that such tax has been paid.
- (d) Adjustments to Conversion Price for Diluting Issues.
- (i) Special Definitions. For purposes of this paragraph 11(A)(4), the following definitions shall apply:
 - (A) “Options” shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Ordinary Shares or Convertible Securities.

- (B) “Series B Original Issue Date” shall mean the date on which the first Series B Preferred Shares were issued.
 - (C) “Convertible Securities” shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Ordinary Shares, but excluding Options.
 - (D) “Additional Ordinary Shares” shall mean all Ordinary Shares issued (or, pursuant to paragraph 11(A)(4)(d)(iii) below, deemed to be issued) by the Company after the Series B Original Issue Date, other than (1) the following Ordinary Shares and (2) Ordinary Shares deemed issued pursuant to the following Options and Convertible Securities (clauses (1) and (2), collectively, “Exempted Securities”):
 - (I) Ordinary Shares, Options or Convertible Securities issued as a dividend or distribution on Preferred Shares;
 - (II) Ordinary Shares, Options or Convertible Securities issued by reason of a dividend, share split, split-up or other distribution on Ordinary Shares that is covered by paragraph 11(A)(4)(e), 11(A)(4)(f), 11(A)(4)(g) or 11(A)(4)(h);
 - (III) up to 36,000,000 Ordinary Shares (as adjusted for stock splits, dividends, combinations, recapitalizations and the like after the filing date hereof), or Options with respect to such Ordinary Shares, issued to employees or directors of, or consultants or advisors to, the Company or any other Group Company pursuant to a plan, agreement or arrangement approved by the Board of Directors of the Company and in accordance with paragraph 11(A)(6)(d); or
 - (IV) Ordinary Shares or Convertible Securities actually issued upon the exercise of Options or Ordinary Shares actually issued upon the conversion or exchange of Convertible Securities, in each case provided such issuance is pursuant to the terms of such Option or Convertible Security; and provided, further that such Option or Convertible Security was an Exempted Security when granted or issued.
- (ii) Reserved.
 - (iii) Deemed Issue of Additional Ordinary Shares.
 - (A) If the Company at any time or from time to time after the Series B Original Issue Date shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which are themselves Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of Ordinary Shares (as set forth in the instrument relating thereto, assuming the satisfaction of any conditions to exercisability, convertibility or exchangeability but without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Ordinary Shares issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

- (B) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Series A Conversion Price or Series B Conversion Price (as applicable) pursuant to the terms of paragraph 11(A)(4)(d)(iv), are revised as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase or decrease in the number of Ordinary Shares issuable upon the exercise, conversion and/or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Company upon such exercise, conversion and/or exchange, then, effective upon such increase or decrease becoming effective, the Series A Conversion Price or Series B Conversion Price (as applicable) computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Series A Conversion Price or Series B Conversion Price (as applicable) as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no readjustment pursuant to this paragraph 11(A)(4)(d)(iii)(B) shall have the effect of increasing the Series A Conversion Price or Series B Conversion Price (as applicable) to an amount which exceeds the lower of (i) the Series A Conversion Price or Series B Conversion Price (as applicable) in effect immediately prior to the original adjustment made as a result of the issuance of such Option or Convertible Security, or (ii) the Series A Conversion Price or Series B Conversion Price (as applicable) that would have resulted from any issuances of Additional Ordinary Shares (other than deemed issuances of Additional Ordinary Shares as a result of the issuance of such Option or Convertible Security) between the original adjustment date and such readjustment date.
- (C) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which are themselves Exempted Securities), the issuance of which did not result in an adjustment to the Series A Conversion Price or Series B Conversion Price (as applicable) pursuant to the terms of paragraph 11(A)(4)(d)(iv) (either because the consideration per share (determined pursuant to paragraph 11(A)(4)(d)(v)) of the Additional Ordinary Shares subject thereto was equal to or greater than the Series A Conversion Price or Series B Conversion Price (as applicable) then in effect, or because such Option or Convertible Security was issued before the Series B Original Issue Date), are revised after the Series B Original Issue Date as a result of an amendment to such terms or any other adjustment pursuant to the provisions of such Option or Convertible Security (but excluding automatic adjustments to such terms pursuant to anti-dilution or similar provisions of such Option or Convertible Security) to provide for either (1) any increase in the number of Ordinary Shares issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended or adjusted, and the Additional Ordinary Shares subject thereto (determined in the manner provided in paragraph 11(A)(4)(d)(iii)(A)) shall be deemed to have been issued effective upon such increase or decrease becoming effective.
- (D) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security (or portion thereof) which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Series A Conversion Price or Series B Conversion Price (as applicable) pursuant to the terms of paragraph 11(A)(4)(d)(iv), the Series A Conversion Price or Series B Conversion Price (as applicable) shall be readjusted to such Series A Conversion Price or Series B Conversion Price (as applicable) as would have obtained had such Option or Convertible Security (or portion thereof) never been issued.

(E) If the number of Ordinary Shares issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Company upon such exercise, conversion and/or exchange, is calculable at the time such Option or Convertible Security is issued or amended but is subject to adjustment based upon subsequent events, any adjustment to the Series A Conversion Price or Series B Conversion Price (as applicable) provided for in this paragraph 11(A)(4)(d)(iii) shall be effected at the time of such issuance or amendment based on such number of shares or amount of consideration without regard to any provisions for subsequent adjustments (and any subsequent adjustments shall be treated as provided in clauses (B) and (C) of this paragraph 11(A)(4)(d)(iii)). If the number of Ordinary Shares issuable upon the exercise, conversion and/or exchange of any Option or Convertible Security, or the consideration payable to the Company upon such exercise, conversion and/or exchange, cannot be calculated at all at the time such Option or Convertible Security is issued or amended, any adjustment to the Series A Conversion Price or Series B Conversion Price (as applicable) that would result under the terms of this paragraph 11(A)(4)(d)(iii) at the time of such issuance or amendment shall instead be effected at the time such number of shares and/or amount of consideration is first calculable (even if subject to subsequent adjustments), assuming for purposes of calculating such adjustment to the Series A Conversion Price or Series B Conversion Price (as applicable) that such issuance or amendment took place at the time such calculation can first be made.

(iv) Adjustment of Conversion Price Upon Issuance of Additional Ordinary Shares. In the event the Company shall at any time after the Series B Original Issue Date issue Additional Ordinary Shares (including Additional Ordinary Shares deemed to be issued pursuant to paragraph 11(A)(4)(d)(iii)), without consideration or for a consideration per share less than the Series A Conversion Price or Series B Conversion Price (as applicable) in effect immediately prior to such issue, then the Series A Conversion Price or Series B Conversion Price (as applicable) shall be reduced, concurrently with such issue, to a price (calculated to the nearest one-hundredth of a cent) determined in accordance with the following formula:

$$CP_2 = CP_1 * (A + B) \div (A + C)$$

For purposes of the foregoing formula, the following definitions shall apply:

- (A) "CP2" shall mean the Series A Conversion Price or Series B Conversion Price (as applicable) in effect immediately after such issue of Additional Ordinary Shares;
- (B) "CP1" shall mean the Series A Conversion Price or Series B Conversion Price (as applicable) in effect immediately prior to such issue of Additional Ordinary Shares;
- (C) "A" shall mean the number of Ordinary Shares outstanding immediately prior to such issue of Additional Ordinary Shares (treating for this purpose as outstanding (I) up to 36,000,000 Ordinary Shares (as adjusted for stock splits, dividends, combinations, recapitalizations and the like after the filing date hereof) reserved for issuance to employees or directors of, or consultants or advisors to, the Company or any other Group Company pursuant to a plan, agreement or arrangement approved by the Board of Directors of the Company and in accordance with paragraph 11(A)(6)(d) and (II) all Class A Ordinary Shares issuable upon conversion or exchange of Convertible Securities (including the Preferred Shares) outstanding immediately prior to such issue);

- (D) “B” shall mean the number of Ordinary Shares that would have been issued if such Additional Ordinary Shares had been issued at a price per share equal to CP1 (determined by dividing the aggregate consideration received by the Company in respect of such issue by CP1); and
 - (E) “C” shall mean the number of such Additional Ordinary Shares issued in such transaction.
- (v) Determination of Consideration. For purposes of this paragraph 11(A)(4)(d), the consideration received by the Company for the issue of any Additional Ordinary Shares shall be computed as follows:
- (A) Cash and Property. Such consideration shall:
 - (I) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company, excluding amounts paid or payable for accrued interest;
 - (II) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors of the Company (including at least one (1) Series B Director); and
 - (III) in the event Additional Ordinary Shares are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (I) and (II) above, as determined in good faith by the Board of Directors of the Company (including at least one (1) Series B Director).
 - (B) Options and Convertible Securities. The consideration per share received by the Company for Additional Ordinary Shares deemed to have been issued pursuant to paragraph 11(A)(4)(d)(iii), relating to Options and Convertible Securities, shall be determined by dividing (I) the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by (II) the maximum number of Ordinary Shares (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities.
- (vi) Multiple Closing Dates. In the event the Company shall issue on more than one date Additional Ordinary Shares that are a part of one transaction or a series of related transactions and that would result in an adjustment to the Series A Conversion Price or Series B Conversion Price (as applicable) pursuant to the terms of paragraph 11(A)(4)(d)(iv), and such issuance dates occur within a period of no more than 90 days from the first such issuance to the final such issuance, then, upon the final such issuance, the Series A Conversion Price or Series B Conversion Price (as applicable) shall be readjusted to give effect to all such issuances as if they occurred on the date of the first such issuance (and without giving effect to any additional adjustments as a result of any such subsequent issuances within such period).

- (e) Adjustment for Share Splits and Combinations. If the Company shall at any time or from time to time after the Series B Original Issue Date effect a subdivision of the outstanding Ordinary Shares, the Series A Conversion Price or Series B Conversion Price (as applicable) in effect immediately before that subdivision shall be proportionately decreased so that the number of Ordinary Shares issuable on conversion of each share of such series shall be increased in proportion to such increase in the aggregate number of Ordinary Shares outstanding. If the Company shall at any time or from time to time after the Series B Original Issue Date combine the outstanding Ordinary Shares, the Series A Conversion Price or Series B Conversion Price (as applicable) in effect immediately before the combination shall be proportionately increased so that the number of Ordinary Shares issuable on conversion of each share of such series shall be decreased in proportion to such decrease in the aggregate number of Ordinary Shares outstanding. Any adjustment under this paragraph 11(A)(4)(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.
- (f) Adjustment for Certain Dividends and Distributions. In the event the Company at any time or from time to time after the Series B Original Issue Date shall make or issue, or fix a record date for the determination of holders of Ordinary Shares entitled to receive, a dividend or other distribution payable on the Ordinary Shares in additional Ordinary Shares, then and in each such event the Series A Conversion Price or Series B Conversion Price (as applicable) in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Series A Conversion Price or Series B Conversion Price (as applicable) then in effect by a fraction:
- (i) the numerator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and
 - (ii) the denominator of which shall be the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of Ordinary Shares issuable in payment of such dividend or distribution.

Notwithstanding the foregoing, (A) if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series A Conversion Price or Series B Conversion Price (as applicable) shall be recomputed accordingly as of the close of business on such record date and thereafter the Series A Conversion Price or Series B Conversion Price (as applicable) shall be adjusted pursuant to this paragraph 11(A)(4)(f) as of the time of actual payment of such dividends or distributions; and (B) that no such adjustment shall be made if the holders of Series A Preferred Shares or Series B Preferred Shares (as applicable) simultaneously receive a dividend or other distribution of Ordinary Shares in a number equal to the number of Ordinary Shares as they would have received if all outstanding Series A Preferred Shares or Series B Preferred Shares (as applicable) had been converted into Ordinary Shares on the date of such event.

- (g) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Series B Original Issue Date shall make or issue, or fix a record date for the determination of holders of Ordinary Shares entitled to receive, a dividend or other distribution payable in securities of the Company (other than a distribution of Ordinary Shares in respect of outstanding Ordinary Shares) or in other property and the provisions of paragraph 11(A)(1) do not apply to such dividend or distribution, then and in each such event the holders of Preferred Shares shall receive, simultaneously with the distribution to the holders of Ordinary Shares, a dividend or other distribution of such securities or other property in an amount equal to the amount of such securities or other property as they would have received if all outstanding Preferred Shares had been converted into Ordinary Shares on the date of such event.

- (h) Adjustment for Merger or Reorganization, etc. Subject to the provisions of paragraph 11(A)(2)(c), if there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Company in which the Ordinary Shares (but not the Preferred Shares) are converted into or exchanged for securities, cash or other property (other than a transaction covered by paragraph 11(A)(4)(e), 11(A)(4)(f) or 11(A)(4)(g)), then, following any such reorganization, recapitalization, reclassification, consolidation or merger, each Preferred Share shall thereafter be convertible in lieu of the Ordinary Shares into which it was convertible prior to such event into the kind and amount of securities, cash or other property which a holder of the number of Ordinary Shares issuable upon conversion of the Preferred Share immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in good faith by the Board of Directors of the Company) shall be made in the application of the provisions in this paragraph 11(A)(4) with respect to the rights and interests thereafter of the holders of the Preferred Shares, to the end that the provisions set forth in this paragraph 11(A)(4) (including provisions with respect to changes in and other adjustments of the Series A Conversion Price or Series B Conversion Price (as applicable)) shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or other property thereafter deliverable upon the conversion of the Preferred Shares.
- (i) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Series A Conversion Price or Series B Conversion Price (as applicable) pursuant to this paragraph 11(A)(4), the Company at its expense shall, as promptly as reasonably practicable but in any event not later than 10 days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Preferred Shares a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Preferred Shares are convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, as promptly as reasonably practicable after the written request at any time of any holder of Preferred Shares (but in any event not later than 10 days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (i) the Series A Conversion Price or Series B Conversion Price (as applicable) then in effect, and (ii) the number of Ordinary Shares and the amount, if any, of other securities, cash or property which then would be received upon the conversion of the applicable Preferred Shares.
- (j) Notice of Record Date. In the event:
- (i) the Company shall take a record of the holders of Ordinary Shares (or other share capital or securities at the time issuable upon conversion of the Preferred Shares) for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of share capital of any class or any other securities, or to receive any other security; or
 - (ii) of any capital reorganization of the Company, any reclassification of the Ordinary Shares, or any Liquidation Event, then, and in each such case, the Company will send or cause to be sent to the holders of the Preferred Shares a notice specifying, as the case may be, (A) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (B) the effective date on which such reorganization, reclassification or Liquidation Event is proposed to take place, and the time, if any is to be fixed, as of which the holders of record of Ordinary Shares (or such other share capital or securities at the time issuable upon the conversion of the Preferred Shares) shall be entitled to exchange their Ordinary Shares (or such other share capital or securities) for securities or other property deliverable upon such reorganization, reclassification or Liquidation Event, and the amount per share and character of such exchange applicable to the Preferred Shares and the Ordinary Shares. Subject to the provisions of paragraph 11(A)(2)(c), such notice shall be sent at least 10 days prior to the record date or effective date for the event specified in such notice.

(5) Mandatory Conversion.

- (a) Trigger Events. Upon either (i) the closing of a Qualified IPO or (ii) the date and time, or the occurrence of an event, specified by vote or written consent of the holders of at least a majority of (x) the then outstanding Series A Preferred Shares and (y) the then outstanding Series B Preferred Shares, each voting as a separate class (the time of such closing or the date and time specified or the time of the event specified in such vote or written consent is referred to herein as the “Mandatory Conversion Time”), (A) all outstanding Preferred Shares shall automatically be converted into Class A Ordinary Shares, at the then effective Series A Conversion Price or Series B Conversion Price and (B) such shares may not be reissued by the Company.
- (b) Procedural Requirements. All holders of record of Preferred Shares shall be sent written notice of the Mandatory Conversion Time and the place designated for mandatory conversion of all such Preferred Shares pursuant to this paragraph 11(A)(5) no less than ten (10) days in advance of the Mandatory Conversion Time. Upon receipt of such notice, each holder of Preferred Shares shall surrender his, her or its certificate or certificates for all such shares (or, if such holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Company to indemnify the Company against any claim that may be made against the Company on account of the alleged loss, theft or destruction of such certificate) to the Company at the place designated in such notice. If so required by the Company, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Company, duly executed by the registered holder or by his, her or its attorney duly authorized in writing. All rights with respect to the Preferred Shares converted pursuant to paragraph 11(A)(5)(a), including the rights, if any, to receive notices and vote (other than as a holder of Ordinary Shares), will terminate at the Mandatory Conversion Time (notwithstanding the failure of the holder or holders thereof to surrender the certificates at or prior to such time), except only the rights of the holders thereof, upon surrender of their certificate or certificates (or lost certificate affidavit and agreement) therefor, to receive the items provided for in the next sentence of this paragraph 11(A)(5)(b). As soon as practicable after the Mandatory Conversion Time and the surrender of the certificate or certificates (or lost certificate affidavit and agreement) for Preferred Shares, the Company shall issue and deliver to such holder, or to his, her or its nominees, a certificate or certificates for the number of full Class A Ordinary Shares issuable on such conversion in accordance with the provisions hereof, together with cash as provided in paragraph 11(A)(4)(b) in lieu of any fraction of a Class A Ordinary Share otherwise issuable upon such conversion and the payment of any declared but unpaid dividends (but not any undeclared Accruing A Dividends or Accruing B Dividends) on the Preferred Shares converted. Such converted Preferred Shares shall be retired and cancelled and may not be reissued as shares of such series, and the Company may thereafter take such appropriate action (without the need for member action) as may be necessary to reduce the authorized number of Preferred Shares accordingly.

(6) Voting Rights.

- (a) General Voting Rights. Subject to paragraphs 11(A)(6)(c) and 11(A)(6)(d), on any matter presented to the members of the Company for their action or consideration at any meeting of members of the Company (or by written consent of members in lieu of meeting), each holder of the then outstanding Preferred Shares shall be entitled to cast the number of votes equal to the number of Class A Ordinary Shares into which the Preferred Shares held by such holder are convertible as of the record date for determining members entitled to vote on such matter. Except as provided by law or by the other provisions of this Memorandum or the Articles of Association of the Company, holders of Preferred Shares shall vote together with the holders of Ordinary Shares as a single class.

- (b) **Designation of Directors.** The Board of Directors of the Company shall consist of five (5) directors. The holders of record of a majority of the Series B Preferred Shares, exclusively and voting as a separate class either at a special meeting of such holders duly called for that purpose or pursuant to a written consent of such holders, may appoint two (2) directors of the Company (each, a “**Series B Director**”) and may in like manner remove with or without cause any Series B Director so appointed and may in like manner appoint another person in his stead. The holders of record of a majority of the Ordinary Shares and Series A Preferred Shares then outstanding, exclusively and voting as a single class either at a meeting of such holders duly called for that purpose or pursuant to a written consent of members, may appoint three (3) directors of the Company, one of whom shall on the date of the adoption of this Memorandum be the chief executive officer of the Company, and may in like manner remove with or without cause any such director so appointed and may in like manner appoint another person in his stead. The Chairman of the Board shall be a non-executive role and shall not have a casting vote separate from his or her position as a director. If the applicable holders fail to appoint a sufficient number of directors to fill all directorships for which they are entitled to appoint directors, voting exclusively and as a single class, pursuant to this paragraph 11(A)(6)(b), then any directorship not so filled shall remain vacant until such time as such applicable holders appoint a person to fill such directorship by vote or written consent in lieu of a meeting; and no such directorship may be filled by holders of the Company other than by the holders of the Company that are entitled to designate a person to fill such directorship, voting exclusively and as a single class. At any meeting held for the purpose of appointing a director, the presence in person or by proxy of the holders of a majority of the outstanding shares of the class or series entitled to designate such director shall constitute a quorum for the purpose of appointing such director.
- (c) **Series A Preferred Shares Protective Provisions.** At any time when any Series A Preferred Shares are outstanding, the directors, and the Shareholders, as applicable, shall cast their votes to procure that neither the Company nor any of the other Group Companies shall, either directly or indirectly by amendment, merger, consolidation or otherwise, without (in addition to any other vote required by law or this Memorandum or the Articles of Association of the Company) the written consent or affirmative vote of the holders of at least a majority of the then outstanding Series A Preferred Shares, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class,
- (i) effect any Liquidation Event, or consent to any Liquidation Event;
 - (ii) amend, alter or repeal any provision of the Memorandum of Association or the Articles of Association of the Company in a manner that adversely affects the powers, preferences or rights of the Series A Preferred Shares, except in connection with, and effective upon the completion of, a Qualified IPO;
 - (iii) create, or authorize the creation of, or issue or obligate itself to issue shares of (by reclassification or otherwise), any additional class or series of share capital unless the same have rights, powers, preferences or privileges junior to the Series A Preferred Shares, except in connection with, and effective upon the completion of, a Qualified IPO;
 - (iv) increase or decrease the authorized number of Ordinary Shares, Series A Preferred Shares, or the authorized share capital of the Company, or increase or decrease the share capital of any other Group Company if the proportional record or beneficial ownership of such other Group Company would change as a result of such increase or decrease, except in connection with, and effective upon the completion of, a Qualified IPO;
 - (v) except in connection with, and effective upon the completion of, a Qualified IPO, (A) reclassify, alter or amend any existing security of the Company that is pari passu with the Series A Preferred Shares in respect of the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends or rights of redemption, if such reclassification, alteration or amendment would render such other security senior to the Series A Preferred Shares in respect of any such right, preference or privilege, or (B) reclassify, alter or amend any existing security of the Company that is junior to the Series A Preferred Shares in respect of the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends or rights of redemption, if such reclassification, alteration or amendment would render such other security senior to or pari passu with the Series A Preferred Shares in respect of any such right, preference or privilege;

- (vi) pay, set aside or declare a distribution or dividend with respect to any of the share or other equity interest in any Group Company;
 - (vii) purchase or redeem (or payment into or setting aside for a sinking fund for such purpose) any shares of any Group Company other than repurchases of shares from former employees, officers, directors, consultants or other persons who performed services for the Company or any other Group Company in connection with the cessation of such employment or service at the lower of the original purchase price or the then-current fair market value thereof;
 - (viii) create, or authorize the creation of, or issue, or authorize the issuance of any debt security or guaranty of indebtedness other than trade debt facilities;
 - (ix) approve any stock option plan or other employee share incentive plan of any Group Company;
 - (x) amend or alter the business scope of any Group Company, or approve the entry into new lines of business or exit from any current lines of business by any Group Company; or
 - (xi) change the capital structure of any Group Company if the proportional record or beneficial ownership of such other Group Company would change as a result of such change;
 - (xii) alter or amend any term of any agreement between Sogou Information and any other Group Company or between any holder of equity securities of Sogou Information and any other Group Company, other than a renewal of any term of such agreement;
 - (xiii) any transfer or issuance of equity interests of Sogou Information other than to an individual that (i) owns at least one percent (1%) of the then outstanding voting securities of the Company (assuming for such purposes the conversion or exercise of convertible or exercisable securities, options, warrants or other similar rights held by such individual) and (ii) has been employed by one or more Group Companies for at least two (2) years as a manager of such Group Company(ies), or in any other position with responsibilities at a level higher than manager; or
 - (xiv) agree or commit to any of the foregoing.
- (d) Series B Preferred Shares Protective Provisions. At any time when any Series B Preferred Shares are outstanding, the directors, and the Shareholders, as applicable, shall cast their votes to procure that neither the Company nor any of the other Group Companies shall, either directly or indirectly by amendment, merger, consolidation or otherwise, do any of the following without (in addition to any other vote required by law or this Memorandum or the Articles of Association of the Company) the written consent or affirmative vote of the holders of at least a majority of the then outstanding Series B Preferred Shares, given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class:
- (i) effect any Liquidation Event, or consent to any Liquidation Event;
 - (ii) amend, alter or repeal any provision of its constitutional documents, the VIE Control Documents or the Basic Documents, except in connection with, and effective upon the completion of, a Qualified IPO;
 - (iii) create, or authorize the creation of, or issue or obligate itself to issue shares of (by reclassification or otherwise), any additional class or series of share capital, except in connection with, and effective upon the completion of, a Qualified IPO;
 - (iv) increase or decrease the authorized number of Ordinary Shares, Preferred Shares, or the authorized share capital of the Company, or increase or decrease the share capital of any other Group Company if the proportional record or beneficial ownership of such other Group Company would change as a result of such increase or decrease, except in connection with, and effective upon the completion of, a Qualified IPO;

- (v) except in connection with, and effective upon the completion of, a Qualified IPO, (A) reclassify, alter or amend any existing equity security of the Company that is pari passu with the Preferred Shares in respect of the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends or rights of redemption, if such reclassification, alteration or amendment would render such other security senior to the Preferred Shares in respect of any such right, preference or privilege, or (B) reclassify, alter or amend any existing equity security of the Company that is junior to the Preferred Shares in respect of the distribution of assets on the liquidation, dissolution or winding up of the Company, the payment of dividends or rights of redemption, if such reclassification, alteration or amendment would render such other security senior to or pari passu with the Preferred Shares in respect of any such right, preference or privilege;
 - (vi) pay, set aside or declare a distribution or dividend with respect to any of the share capital or other equity interest in any Group Company;
 - (vii) purchase or redeem (or payment into or setting aside for a sinking fund for such purpose) any shares of any Group Company other than repurchases of shares from former employees, officers, directors, consultants or other persons who performed services for the Company or any other Group Company in connection with the cessation of such employment or service at the lower of the original purchase price;
 - (viii) create, or authorize the creation of, or issue, or authorize the issuance of any debt security or guaranty of indebtedness other than trade debt facilities, individually or in aggregate exceeding 30% of the total assets of the Company as of the end of the last Financial Year;
 - (ix) approve or amend any stock option plan or other employee share incentive plan of any Group Company;
 - (x) make any material changes to, or to cease, any line of the Principal Business; ;
 - (xi) change the capital structure of any Group Company if the proportional record or beneficial ownership of such other Group Company would change as a result of such change; or
 - (xii) agree or commit to any of the foregoing.
- (7) Additional Rights. All other rights attaching thereto by virtue of this Memorandum and the Articles of Association.
- (B) Rights, Preferences and Restrictions of Ordinary Shares**. The rights, preferences, privileges and restrictions granted to and imposed on the Ordinary Shares are as set forth below in this paragraph 11(B).
- (1) Dividend Rights. Subject to the prior rights of holders of all classes of shares at the time outstanding having prior rights as to dividends, the holders of the Ordinary Shares shall be entitled to receive, when, as and if declared by the Board of Directors, out of any assets of the Company legally available therefor, any dividends as may be declared from time to time by the Board of Directors as provided in paragraph 11(A)(l) hereof.
- (2) Liquidation Rights. In the event of any Liquidation Event, after the payment of all preferential amounts required to be paid to the holders of Preferred Shares, the remaining assets of the Company available for distribution to its members shall be distributed among the holders of Ordinary Shares, pro rata based on the number of shares held by each such holder; provided, however, for purposes of this paragraph 11(B)(2), in the case of a Liquidation Event described in paragraphs 11(A)(2)(d)(i)(B), 11(A)(2)(d)(i)(C) and 11(A)(2)(d)(i)(D) of the definition of Liquidation Event, “the remaining assets of the Company available for distribution” will refer only to those assets available from such Liquidation Event, unless the Board and, to the extent required hereunder or by the law of the Caymans Islands, the Company’s shareholders, have affirmatively determined that the Company should be liquidated completely.
- (3) Redemption. The Ordinary Shares are not redeemable at the option of the holder.

- (4) Voting Rights. The holders of the Class A Ordinary Shares are entitled to one (1) vote for each Class A Ordinary Share held at all meetings of members (and written actions in lieu of meetings). The holders of the Class B Ordinary Shares are not entitled to any vote for each Class B Ordinary Share held at all meetings of members (and written actions in lieu of meetings), provided that, upon giving notice in writing to the Company signed by the holders of at least a majority of the then outstanding Class B Ordinary Shares of their request to convert the Class B Ordinary Shares into voting shares, the holders of the Class B Ordinary Shares shall automatically and immediately be entitled to one (1) vote for each Class B Ordinary Share held at all subsequent meetings of members (and written actions in lieu of meetings) without any further action required by the holders of the Class B Ordinary Shares or the Company. The notice shall be delivered to the registered office of the Company, with a copy delivered to the principal office of the Company.
- (5) Conversion of Class B Ordinary Shares. In addition to and not by way of limitation of the foregoing provisions of sub-paragraph (4) above, each Class B Ordinary Share shall be convertible, at the option of the holder thereof, at any time and from time to time, and without the payment of additional consideration by the holder thereof, into one fully paid and non-assessable Class A Ordinary Share. In order for a holder of Class B Ordinary Shares to voluntarily convert Class B Ordinary Shares into Class A Ordinary Shares, such holder shall surrender the certificate or certificates for such Class B Ordinary Shares (or, if such registered holder alleges that such certificate has been lost, stolen or destroyed, a lost certificate affidavit and agreement reasonably acceptable to the Company to indemnify the Company against any claim that may be made against the Company on account of the alleged loss, theft or destruction of such certificate) to the principal office of the Company, together with written notice that such holder elects to convert all or any number of the Class B Ordinary Shares represented by such certificate or certificates and, if applicable, any event on which such conversion is contingent. Such notice shall state such holder's name or the names of the nominees in which such holder wishes the certificate or certificates for Class B Ordinary Shares to be issued. The close of business on the date of receipt by the Company of such certificates (or lost certificate affidavit and agreement) and notice shall be the time of conversion (the "Ordinary Conversion Time"), and the Class A Ordinary Shares converted, as represented by such certificate shall be deemed to be cancelled as of such date. The Company shall, as soon as practicable after the Ordinary Conversion Time, issue and deliver to such holder of Class B Ordinary Shares, or to his, her or its nominees, a certificate or certificates for the number of full Class A Ordinary Shares issuable upon such conversion in accordance with the provisions hereof and a certificate for the number (if any) of the Class B Ordinary Shares represented by the surrendered certificate that were not converted into Class A Ordinary Shares. The provisions of paragraph 11A(4)(c)(ii) (*Reservation of Shares*) shall apply mutatis mutandis to the reservation of Class A Ordinary Shares issuable on conversion of the Class B Ordinary Shares under this paragraph.
- (6) Additional Rights. All other rights attaching thereto by virtue of this Memorandum and the Articles of Association.
12. Subject to the provisions of paragraph 11(A)(6) if at any time the authorized capital is divided into different classes or series of shares, the rights attached to any class or series (unless otherwise provided by the terms of issue of the shares of that class or series) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or series and of the holders of not less than three-fourths of the issued shares of any other class or series of shares which may be affected by such variation. Notwithstanding the foregoing, in the event that there is any share dividend, share split, combination, recapitalization or any similar event on any class of Ordinary Shares, such change shall apply equally to the Class A Ordinary Shares and the Class B Ordinary Shares.
13. Without prejudice to the provisions of paragraph 11(A)(6) the rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.
14. The meanings of words not expressly defined in this Memorandum are as defined in the Articles of Association of the Company.

THE COMPANIES LAW (REVISED)
COMPANY LIMITED BY SHARES
SECOND AMENDED AND RESTATED
ARTICLES OF ASSOCIATION
OF
SOGOU INC.

(Amended and restated by special resolution dated September 16, 2013)

SECOND AMENDED AND RESTATED
ARTICLES OF ASSOCIATION

OF

SOGOOU INC.

(Adopted by a special resolution passed on September 16, 2013)

Table A

The regulations in Table A in the First Schedule to the Law (as defined below) do not apply to the Company.

INTERPRETATION

1. Definitions

1.1 In these Articles, the following words and expressions shall, where not inconsistent with the context, have the following meanings, respectively:

Alternative Director	an alternate director appointed in accordance with these Articles;
Articles	these Second Amended and Restated Articles of Association as altered from time to time;
Auditor	includes an individual or partnership;
Board	the board of directors appointed or elected pursuant to these Articles and acting at a meeting of directors at which there is a quorum or by written resolutions in accordance with these Articles;
Company	the company for which these Articles are approved and confirmed;
Director	a director, including a sole director, for the time being of the Company and shall include an Alternate Director;
Law	The Companies Law of the Cayman Islands and every modification, reenactment or revision thereof for the time being in force;
Member	the person registered in the Register of Members as the holder of shares in the Company and, when two or more persons are so registered as joint holders of shares, means the person whose name stands first in the Register of Members as one of such joint holders or all of such persons, as the context so requires;

Memorandum or Memorandum of Association	The Memorandum of Association of the Company or as originally framed or as from time to time amended;
month	calendar month;
notice	written notice as further provided in these Articles unless otherwise specifically stated;
Officer	any person appointed by the Board to hold an office in the Company;
ordinary resolution	a resolution passed at a general meeting (or, if so specified, a meeting of Members holding a class of shares) of the Company by, or by written resolution of, a simple majority of the votes cast;
paid-up	paid-up or credited as paid-up;
Register of Directors and Officers	the register of directors and officers referred to in these Articles;
Register of Members	the register of Members referred to in these Articles;
Registered Office	the registered office for the time being of the Company;
Seal	the common seal or any official or duplicate seal of the Company;
Secretary	the person appointed to perform any or all of the duties of secretary of the Company and includes any deputy or assistant secretary and any person appointed by the Board to perform any of the duties of the Secretary;
Series A Preferred Shares	Series A Preferred Shares, par value US\$0.001 per share, of the Company;
Series B Directors	the directors designated by the holders of Series B Preferred Shares pursuant to paragraph 11(A)(6)(b) of the Memorandum;

Series B Preferred Shares	Series B Preferred Shares, par value US\$0.001 per share, of the Company;
share	includes a fraction of a share;
special resolution	a resolution passed by a majority of not less than two-thirds of Members present and voting in person or by proxy at a general meeting (or, if so specified, a meeting of Members holding a class of shares) of the Company, or by written consent of all of the Members entitled to vote a general meeting of members, as provided in the Law;
written resolution	a resolution passed in accordance with Article 35 or 60; and
year	calendar.

1.2 In these Articles, where not inconsistent with the context:

- (a) words denoting the plural number include the singular number and vice versa;
- (b) words denoting the masculine gender include the feminine and neuter genders;
- (c) words importing persons include companies, associations or bodies of persons whether corporate or not;
- (d) the word
 - (i) “may” shall be construed as permissive; and
 - (ii) “shall” shall be construed as imperative;
- (e) a reference to statutory provision shall be deemed to include any amendment or re-enactment thereof; and
- (f) unless otherwise provided herein, words or expressions defined in the Law shall bear the same meaning in these Articles.

1.3 In these Articles expressions referring to writing or its cognates shall, unless the contrary intention appears, include facsimile, printing, lithography, photography, electronic mail and other modes of representing words in visible form.

- 1.4 Headings used in these Articles are for convenience only and are not to be used or relied upon in the construction hereof.
- 1.5 Any defined terms used herein and not otherwise defined shall have the meanings specified to those terms in the Memorandum.

SHARES

2. Power to Issue Shares

- 2.1 Subject to these Articles, the Memorandum and any resolution of the Members to the contrary, and without prejudice to any special rights conferred on the holders of any existing shares or class of shares, the Board shall have the power to issue any unissued shares of the Company on such terms and conditions as it may determine and any shares or class of shares (including the issue or grant of options, warrants and other rights, renounceable or otherwise in respect of shares) may be issued with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital, or otherwise as the Company may by resolution of the Members prescribe, provided, that no share shall be issued at a discount except in accordance with the Law.
- 2.2 Section 3 (*Preemptive Rights*) of the Shareholders Agreement is incorporated herein by reference.

3. Redemption and Purchase of Shares

- 3.1 Subject to the Law and to the extent authorized by the Memorandum, the Company is authorized to issue shares which are to be redeemed or are liable to be redeemed at the option of the Company or a Member.
- 3.2 The Company is hereby authorized to make payments in respect of the redemption of its shares out of capital or out of any other account or fund which can be authorized for this purpose in accordance with the Law.
- 3.3 The redemption price of a redeemable share, or the method of calculation thereof, shall be fixed by the Directors at or before the time of issue.
- 3.4 Every share certificate representing a redeemable share shall indicate that the share is redeemable.
- 3.5 Subject to the law, and with the sanction of an ordinary resolution authorizing the manner and terms of purchase, the Directors may on behalf of the Company purchase any share in the Company (including a redeemable share) by agreement with the holder or pursuant to the terms of the issue of the share and may make payments in respect of such purchase in accordance with the law, provided that the Company may purchase shares in the Company pursuant to the Basic Documents without the requiring the sanction of an ordinary resolution pursuant to this Article 3.5.

- 3.6** The redemption price may be paid in any manner authorized by these Articles for the payment of dividends.
- 3.7** Except as otherwise provided in the Memorandum, a delay in payment of the redemption price shall not affect the redemption but, in the case of a delay of more than thirty days, interest shall be paid for the period from the due date until actual payment at a rate which the Directors, after due enquiry, estimate to be representative of the rates being offered by Class A banks in the Cayman Islands for thirty day deposits in the same currency.
- 3.8** The Directors may exercise as they think fit the powers conferred on the Company by Section 37(5) of the Law (payment out of capital) but only if and to the extent that the redemption could not otherwise be made (or not without making a fresh issue of shares for this purpose).
- 3.9** Subject as aforesaid, the Directors may determine, as they think fit all questions that may arise concerning the manner in which the redemption of the shares shall or may be effected.
- 3.10** No share may be redeemed unless it is fully paid-up.

4. Rights Attaching to Shares

Subject to the provisions of these Articles, the Memorandum and any resolution of the Members to the contrary and without prejudice to any special rights conferred thereby on the holders of any other shares or class of shares, the share capital of the Company shall be divided into shares of a single class the holders of which shall:

- (a) be entitled to one vote per share;
- (b) be entitled to such dividends as the Board may from time to time declare;
- (c) in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or upon any distribution of capital, be entitled to the surplus assets of the Company; and
- (d) generally be entitled to enjoy all of the rights attaching to shares.

5. Calls on Shares

- 5.1** The Board may make such calls as it thinks fit upon the Members in respect of any monies (whether in respect of nominal value or premium) unpaid on the shares allotted to or held by such Members and, if a call is not paid on or before the day appointed for payment thereof, the Member may at the discretion of the Board be liable to pay the Company interest on the amount of such call at such rate as the Board may determine, from the date when such call was payable up to the actual date of payment. The Board may differentiate between the holders as to the amount of calls to be paid and the times of payment of such calls.

5.2 The Company may accept from any Member the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up.

5.3 The Company may make arrangements on the issue of shares for a difference between the Members in the amounts and times of payments of calls on their shares.

6. Joint and Several Liability to Pay Calls

The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.

7. Forfeiture of Shares

7.1 If a Member fails to pay any call or installment of a call or to make any payment required by the terms of issue on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call, installment or payment remains unpaid, give notice requiring payment of so much of the call, installment or payment as is unpaid, together with any of which may have accrued and all expenses that have been incurred by the Company by reason of such non-payment. Such notice shall name a day (not earlier than the expiration of fourteen days from the date of giving of the notice) on or before which the payment required by the notice is to be made, and shall state that, in the event of non-payment at or before the time appointed the shares in respect of which such notice was given will be liable to be forfeited.

7.2 If the requirements of such notice are not complied with, any such share may at any time thereafter before the payment of such call and the interest due in respect thereof be forfeited by a resolution of the Board to that effect, and such share shall thereupon become the property of the Company and may be disposed of as the Board shall determine. Without limiting the generality of the foregoing, the disposal may take place by sale, repurchase, redemption or any other method of disposal permitted by and consistent with these Articles and the Law.

7.3 A Member whose share or shares have been forfeited as aforesaid shall, notwithstanding such forfeiture, be liable to pay to the Company all calls owing on such share or shares at the time of the forfeiture and all interest due thereon.

7.4 The Board may accept the surrender of any shares which it is in a position to forfeit on such terms and conditions as may be agreed. Subject to those terms and conditions, a surrendered share shall be treated as if it had been forfeited.

8. Share Certificates

8.1 Every Member shall be entitled to a certificate under the seal of the Company (or a facsimile thereof) specifying the number and, where appropriate, the class of shares held by such Member and whether the same are fully paid up and, if not, how much has been paid thereon. The Board may by resolution determine, either generally or in a particular case, that any or all signatures on certificates may be printed thereon or affixed by mechanical means.

8.2 If any share certificate shall be proved to the satisfaction of the Board to have been worn out, lost, mislaid, or destroyed the Board may cause a new certificate to be issued and request an indemnity for the lost certificate if it sees fit.

8.3 Share certificates may not be issued in bearer form.

9. Fractional Shares

Except as otherwise provided in the Memorandum, the Company may issue its shares in fractional denominations and deal with such fractions to the same extent as its whole shares and shares in fractional denominations shall have in proportion to the respective fractions represented thereby all of the rights of whole shares including (but without limiting the generality of the foregoing) the right to vote, to receive dividends and distributions and to participate in a winding-up.

REGISTRATION OF SHARES

10. Register of Members

The Board shall cause to be kept in one or more books a Register of Members which may be kept outside the Cayman Islands at such place as the Directors shall appoint and shall enter therein the following particulars:

- (a) the name and address of each Member, the number, and (where appropriate) the class of shares held by such Member and the amount paid or agreed to be considered as paid on such shares;

- (b) the date on which each person was entered in the Register of Members; and
- (c) the date on which any person ceased to be a Member.

11. Registered Holder Absolute Owner

- 11.1** The Company shall be entitled to treat the registered holder of any share as the absolute owner thereof and accordingly shall not be bound to recognize any equitable claim or other claim to, or interest in, such share on the part of any other person.
- 11.2** No person shall be entitled to recognition by the Company as holding any share upon any trust and the Company shall not be bound by, or be compelled in any way to recognize, (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any other right in respect of any share except an absolute right to the entirety of the share in the holder. If, notwithstanding this Article, notice of any trust is at the holder's request entered in the Register of Members or on a share certificate in respect of a share, then, except as aforesaid:
- (a) such notice shall be deemed to be solely for the holder's convenience;
 - (b) the Company shall not be required in any way to recognize any beneficiary, or the beneficiary, of the trust as having an interest in the share or shares concerned;
 - (c) the Company shall not be concerned with the trust in any way, as to the identity or powers of the trustees, the validity, purposes or terms of the trust, the question of whether anything done in relation to the shares may amount to a breach of trust or otherwise; and
 - (d) the holder shall keep the Company fully indemnified against any liability or expense which may be incurred or suffered as a direct or indirect consequence of the Company entering notice of the trust in the Register of Members or on a share certificate and continuing to recognize the holder as having an absolute right to the entirety of the share or shares concerned.

12. Transfer of Registered Shares

- 12.1** The instrument of transfer of any share shall be in writing and shall be executed by or on behalf of the transferor and the transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register in respect thereof.

- 12.2 Such instrument of transfer shall be signed by or on behalf of the transferor and transferee, provided, that, in the case of a fully paid share, the Board may accept the instrument signed by or on behalf of the transferor alone. The transferor shall be deemed to remain the holder of such share until the same has been transferred to the transferee in the Register of Members.
- 12.3 The Board may refuse to recognize any instrument of transfer unless it is accompanied by the certificate in respect of the shares to which it relates and by such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.
- 12.4 The joint holders of any share may transfer such share to one or more of such joint holders, and the surviving holder or holders of any share previously held by them jointly with a deceased Member may transfer any such share to the executors or administrators of such deceased Member.
- 12.5 The transfer restrictions of the shares set out in Section 2 of the Shareholders Agreement (*Restrictions on Transfers of Shares*) are incorporated herein by reference.

13. Transmission of Registered Shares

- 13.1 In case of the death of a Member, the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he was a sole holder, shall be the only persons recognized by the Company as having any title to his interest in the shares, but nothing herein contained shall release the estate of any such deceased holder from any liability in respect of any shares which had been held by him solely or jointly with other persons.
- 13.2 Any person becoming entitled to a share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) may, upon such evidence being produced as may from time to time be required by the Board and subject as hereinafter provided, elect either to be registered himself as holder of the share or to make such transfer of the share to such other person nominated by him as the deceased or bankrupt person could have made and to have such person registered as the transferee thereof, but the Board shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that Member before his death or bankruptcy as the case may be. If the person so becoming entitled shall elect to be registered himself as holder he shall deliver or send to the Company a notice in writing signed by him stating that he so elects.

- 13.3** A person becoming entitled to a share by reason of the death or bankruptcy or liquidation or dissolution of the holder (or in any other case than by transfer) shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a Member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the Company, except that the Board may at any time give notice requiring any such person to elect either to be registered himself or to transfer the share and if the notice is not complied with within ninety days the Board may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the share until the requirements of the notice have been complied with.

ALTERATION OF SHARE CAPITAL

14. Power to Alter Capital

- 14.1** Subject to the Law and the provisions of the Memorandum, the Company may from time to time by ordinary resolution alter the conditions of its Memorandum to increase its share capital by new shares of such amount as it thinks expedient or, if the Company has shares without par value, increase its share capital by such number of shares without nominal or par value, or increase the aggregate consideration for which its shares may be issued, as it thinks expedient.
- 14.2** Subject to the Law and the provisions of the Memorandum, the Company may from time to time by ordinary resolution alter the conditions of its Memorandum of Association to:
- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
 - (b) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum of Association; or
 - (c) cancel shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled or, in the case of shares without par value, diminish the number of shares into which its capital is divided.
- 14.3** For the avoidance of doubt it is declared that paragraph 14.2(a) and (b) above do not apply if at any time the shares of the Company have no par value.
- 14.4** Subject to the Law and the provisions of the Memorandum, the Company may from time to time by special resolution reduce its share capital in any way or, subject to Article 74, alter any conditions of its Memorandum of Association relating to share capital.

15. Variation of Rights Attaching to Shares

Except as otherwise provided in the Memorandum, if, at any time, the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound-up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a resolution passed by a majority of the votes cast at a separate general meeting of the holders of the shares of the class at which meeting the necessary quorum shall be two persons at least holding or representing by proxy half of the issued shares of the class. The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further preferred shares ranking *pari passu* with or in preference thereto.

DIVIDENDS AND CAPITALISATION

16. Dividends

- 16.1** The Board may, subject to these Articles, the Memorandum and any direction of the Company in general meeting, declare a dividend to be paid to the Members, in proportion to the number of shares held by them, and such dividend may be paid in cash or wholly or partly in specie in which case the Board may fix the value for distribution in specie of any assets. No unpaid dividend shall bear interest as against the Company.
- 16.2** Dividends may be declared and paid out of profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed, or not in the same amount. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Law.
- 16.3** With the sanction of an ordinary resolution of the Company and subject to the provisions of the Memorandum, the Directors may determine that a dividend shall be paid wholly or partly by the distribution of specific assets (which may consist of the shares or securities of any other company) and may settle all questions concerning such distribution. Without limiting the foregoing generality, the Directors may fix the value of such specific assets, may determine that cash payments shall be made to some Members in lieu of specific assets and may vest any such specific assets in trustees on such terms as the Directors think fit.
- 16.4** Except as otherwise provided in the Memorandum, the Company may pay dividends in proportion to the amount paid up on each share where a larger amount is paid up on some shares than on others.

- 16.5** Except as otherwise provided in the Memorandum, the Board may declare and make such other distributions (in cash or in specie) to the Members as may be lawfully made out of the assets of the Company. No unpaid distribution shall bear interest as against the Company.
- 16.6** The Board may fix any date as the record date for determining the Members entitled to receive any dividend or other distribution, but, unless so fixed, the record date shall be the date of the Directors' resolution declaring same.

17. Power to Set Aside Profits

- 17.1** The Board may, before declaring a dividend, set aside out of the surplus or profits of the Company, such sum as it thinks proper as a reserve to be used to meet contingencies or for equalising dividends or for any other purpose. Pending application, such sums may be employed in the business of the Company or invested, and need not be kept separate from other assets of the Company. The Directors may also, without placing the same to reserve, carry forward any profit which they decide not to distribute.
- 17.2** Subject to any direction from the Company in general meeting, the Directors may on behalf of the Company exercise all the powers and options conferred on the Company by the Law in regard to the Company's share premium account.

18. Method of Payment

- 18.1** Any dividend, interest, or other monies payable in cash in respect of the shares may be paid by cheque or draft sent through the post directed to the Member at such Member's address in the Register of Members, or to such person and to such address as the holder may in writing direct.
- 18.2** In the case of joint holders of shares, any dividend, interest or other monies payable in cash in respect of shares may be paid by cheque or draft sent through the post directed to the address of the holder first named in the Register of Members, or to such person and to such address as the joint holders may in writing direct. If two or more persons are registered as joint holders of any shares any one can give an effectual receipt for any dividend paid in respect of such shares.
- 18.3** The Board may deduct from the dividends or distributions payable to any Member all monies due from such Member to the Company on account of calls or otherwise.

19. Capitalisation

- 19.1** The Board may resolve to capitalise any sum for the time being standing to the credit of any of the Company's share premium or other reserve accounts or to the credit of the profit and loss account or otherwise available for distribution by applying such sum in paying up unissued shares to be allotted as fully paid bonus shares pro rata to the Members.
- 19.2** The Board may resolve to capitalise any sum for the time being standing to the credit of a reserve account or sums otherwise available for dividend or distribution by applying such amounts in paying up in full partly paid or nil paid shares of those Members who would have been entitled to such sums if they were distributed by way of dividend or distribution.

MEETINGS OF MEMBERS

20. Annual General Meetings

The Company may in each year hold a general meeting as its annual general meeting. The annual general meeting of the Company may be held at such time and place as the Chairman or any two Directors or any Director and the Secretary or the Board shall appoint.

21. Extraordinary General Meetings

- 21.1** General meetings other than annual general meetings shall be called extraordinary general meetings.
- 21.2** The Chairman or any two Directors or any Director and the Secretary or the Board may convene an extraordinary general meeting of the Company whenever in their judgment such a meeting is necessary.

22. (Reserved)

23. Notice

- 23.1** At least 14 days' notice of an annual general meeting shall be given to each Member entitled to attend and vote thereat, stating the date, place and time at which the meeting is to be held and if different, the record date for determining Members entitled to attend and vote at the general meeting, and, as far as practicable, the other business to be conducted at the meeting.
- 23.2** At least ten days' notice of an extraordinary general meeting shall be given to each Member entitled to attend and vote thereat, stating the date, place and time at which the meeting is to be held and the general nature of the business to be considered at the meeting.

- 23.3 The Board may fix any date as the record date for determining the Members entitled to receive notice of and to vote at any general meeting of the Company but, unless so fixed, as regards the entitlement to receive notice of a meeting or notice of any other matter, the record date shall be the date of despatch of the notice and, as regards the entitlement to vote at a meeting, and any adjournment thereof, the record date shall be the date of the original meeting.
- 23.4 A general meeting of the Company shall, notwithstanding that it is called on shorter notice than that specified in these Articles, be deemed to have been properly called if it is so agreed by (i) all the Members entitled to attend and vote thereat in the case of an annual general meeting; and (ii) in the case of an extraordinary general meeting, by seventy-five percent of the Members entitled to attend and vote thereat.
- 23.5 The accidental omission to give notice of a general meeting to, or the non- receipt of a notice of a general meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

24. Giving Notice

- 24.1 A notice may be given by the Company to any Member either by delivering it to such Member in person or by sending it to such Member's address in the Register of Members or to such other address given for the purpose. For the purposes of this Article, a notice may be sent by letter mail, courier service, cable, telex, telecopier, facsimile, electronic mail or other mode of representing words in a legible form.
- 24.2 Any notice required to be given to a Member shall, with respect to any shares held jointly by two or more persons, be given to whichever of such persons is named first in the Register of Members and notice so given shall be sufficient notice to all the holders of such shares.
- 24.3 Any notice shall be deemed to have been served at the time when the same would be delivered in the ordinary course of transmission and, in proving such service, it shall be sufficient to prove that the notice was properly addressed and prepaid, if posted, and the time when it was posted, delivered to the courier or to the cable company or transmitted by telex, facsimile, electronic mail, or such other method as the case may be.

25. Postponement of General Meeting

The Board may postpone any general meeting called in accordance with the provisions of these Articles provided, that notice of postponement is given to each Member before the time for such meeting. Fresh notice of the date, time and place for the postponed meeting shall be given to each member in accordance with the provisions of these Articles.

26. Participating in Meetings by Telephone

Members may participate in any general meeting by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.

27. Quorum at General Meetings

27.1 At any general meeting of the Company two or more persons present in person and representing in person or by proxy in excess of 50% of the total issued voting shares in the Company throughout the meeting (including at least a majority of the then outstanding Series A Preferred Shares and of the then outstanding Series B Preferred Shares) shall form a quorum for the transaction of business, provided, that if the Company shall at any time have, only one Member, one Member present in person or by proxy shall form a quorum for the transaction of business at any general meeting of the Company held during such time.

27.2 If within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall stand adjourned to the same day one week later, at the same time and place or to such other day, time or place as the Board may determine.

28. Chairman to Preside

Unless otherwise agreed by a majority of those attending and entitled to vote thereat, the Chairman, if there be one, shall act as chairman at all meetings of the Members at which such person is present. In his absence a chairman shall be appointed or elected by those present at the meeting and entitled to vote.

29. Voting on Resolutions

29.1 Subject to the provisions of the Law, the Memorandum and these Articles, any question proposed for the consideration of the Members at any general meeting shall be decided by the affirmative votes of a majority of the votes cast in accordance with the provisions of these Articles and in the case of an equality of votes the resolution shall fail.

29.2 No Member shall be entitled to vote at a general meeting unless such Member has paid all the calls on all shares held by such Member.

29.3 At any general meeting a resolution put to the vote of the meeting shall, in the first instance, be voted upon by a show of hands and, subject to any rights or restrictions for the time being lawfully attached to any class of shares and subject to the provisions of these Articles, every Member present in person and every person holding a valid proxy at such meeting shall be entitled to one vote and shall cast such vote by raising his hand.

- 29.4** At any general meeting if an amendment shall be proposed to any resolution under consideration and the chairman of the meeting shall rule on whether the proposed amendment is out of order, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling.
- 29.5** At any general meeting a declaration by the chairman of the meeting that a question proposed for consideration has, on a show of hands, been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in a book containing the minutes of the proceedings of the Company shall, subject to the provisions of these Articles, be conclusive evidence of that fact.

30. Power to Demand a Vote on a Poll

- 30.1** Notwithstanding the foregoing, a poll may be demanded by the Chairman or at least one Member.
- 30.2** Where a poll is demanded, subject to any rights or restrictions for the time being lawfully attached to any class of shares, every person present at such meeting shall have one vote for each share of which such person is the holder or for which such person holds a proxy and such vote shall be counted by ballot as described herein, or in the case of a general meeting at which one or more Members are present by telephone, in such manner as the chairman of the meeting may direct and the result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded and shall replace any previous resolution upon the same matter which has been the subject of a show of hands. A person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.
- 30.3** A poll demanded for the purpose of electing a chairman of the meeting or on a question of adjournment shall be taken forthwith and a poll demanded on any other question shall be taken in such manner and at such time and place at such meeting as the chairman of the meeting may direct and any business other than that upon which a poll has been demanded may be proceeded with pending the taking of the poll.
- 30.4** Where a vote is taken by poll, each person present and entitled to vote shall be furnished with a ballot paper on which such person shall record his vote in such manner as shall be determined at the meeting having regard to the nature of the question on which the vote is taken, and each ballot paper shall be signed or initialled or otherwise marked so as to identify the voter and the registered holder in the case of a proxy. At the conclusion of the poll, the ballot papers shall be examined and counted by a committee of not less than two Members or proxy holders appointed by the chairman for the purpose and the result of the poll shall be declared by the chairman.

31. Voting by Joint Holders of Shares

In the case of joint holders, the vote of the senior who tenders a vote (whether in person or by proxy) shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.

32. Instrument of Proxy

- 32.1 The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointer or of his attorney duly authorized in writing, or, if the appointer is a corporation under the hand of an officer or attorney duly authorized in that behalf. A proxy need not be a Member of the Company.
- 32.2 The instrument of proxy shall be signed or, in the case of a transmission by electronic mail, electronically signed in a manner acceptable to the chairman, by the appointer or by the appointer's attorney duly authorised in writing, or if the appointer is a corporation, either under its seal or signed or, in the case of a transmission by electronic mail, electronically signed in a manner acceptable to the chairman, by a duly authorised officer or attorney.
- 32.3 A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf.
- 32.4 The decision of the chairman of any general meeting as to the validity of any appointment of a proxy shall be final.

33. Representation of Corporate Member

- 33.1 A corporation which is a Member may, by written instrument, authorise such person or persons as it thinks fit to act as its representative at any meeting of the Members and any person so authorised shall be entitled to exercise the same powers on behalf of the corporation which such person represents as that corporation could exercise if it were an individual Member, and that Member shall be deemed to be present in person at any such meeting attended by its authorised representative or representatives.
- 33.2 Notwithstanding the foregoing, the chairman-of the meeting may accept such assurances as he thinks fit as to the right of any person to attend and vote at general meetings on behalf of a corporation which is a Member,

34. Adjournment of General Meeting

The chairman of a general meeting may, with the consent of the Members at any general meeting at which a quorum is present, and shall if so directed by the meeting, adjourn the meeting. Unless the meeting is adjourned to a specific date, place and time announced at the meeting being adjourned, fresh notice of the date, place and time for the resumption of the adjourned meeting shall be given to each Member entitled to attend and vote thereat in accordance with these Articles and/or the Memorandum.

35. Written Resolutions

35.1 Anything which may be done by ordinary resolution of the Company in general meeting or by ordinary resolution of a meeting of any class or series of the Members may, without a meeting and without any previous notice being required, be done by resolution in writing signed by, or in the case of a Member that is a corporation whether or not a company within the meaning of the Law, on behalf of, the holders of a majority of the shares of the class or series, voting as separate classes and/or series or voting together as and to the extent provided by the Memorandum or these Articles, who at the date of the resolution would be entitled to attend the meeting and vote on the resolution.

35.2 A resolution in writing may be signed by, or in the case of a Member that is a corporation whether or not a company within the meaning of the Law, on behalf of, the Members, or the Members of the relevant class thereof, in as many counterparts as may be necessary.

35.3 A resolution in writing made in accordance with this Article is as valid as if it had been passed by the Company in general meeting or by a meeting of the relevant class of Members, as the case may be, and any reference in any Article to a meeting at which a resolution is passed or to Members voting in favour of a resolution shall be construed accordingly.

35.4 A resolution in writing made in accordance with this Article shall constitute minutes for the purposes of the Law.

35.5 For the purposes of this Article, the date of the resolution is the date when the resolution is signed by, or in the case of a Member that is a corporation whether or not a company within the meaning of the Law, on behalf of, the last Member to sign and any reference in any Article to the date of passing of a resolution is, in relation to a resolution made in accordance with this Article, a reference to such date.

36. Directors Attendance at General Meetings

The Directors of the Company shall be entitled to receive notice of, attend and be heard at any general meeting.

DIRECTORS AND OFFICERS

37. Election of Directors

37.1 There shall be no shareholding qualification for Directors.

37.2 Subject to the Memorandum, the Directors may from time to time appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors, subject to any upper limit on the number of Directors prescribed pursuant to this Article.

37.3 Subject to the Memorandum, the Company may from time to time by ordinary resolution appoint any person to be a Director.

38. Number of Directors

The Board shall consist of not less than one Director or such number in excess thereof as the Board may determine.

39. Term of Office of Directors

An appointment of a Director may be on terms that the Director shall automatically retire from office (unless he has sooner vacated office) at the next or a subsequent annual general meeting or upon any specified event or after any specified period; but no such term shall be implied in the absence of express provision.

40. Alternate Directors

40.1 A Director may at any time appoint any person (including another Director) to be his Alternate Director and may at any time terminate such appointment. An appointment and a termination of appointment shall be by notice in writing signed by the Director and deposited at the Registered Office or delivered at a meeting of the Directors.

40.2 The appointment of an Alternate Director shall determine on the happening of any event which, if he were a Director, would cause him to vacate such office or if his appointer ceases for any reason to be a Director.

40.3 An Alternate Director shall be entitled to receive notices of meetings of the Directors and shall be entitled to attend and vote as a Director at any such meeting at which his appointer is not personally present and generally at such meeting to perform all the functions of his appointer as a Director; and for the purposes of the proceedings at such meeting these Articles shall apply as if he (instead of his appointer) were a Director, save that he may not himself appoint an Alternate Director or a proxy.

40.4 If an Alternate Director is himself a Director or attends a meeting of the Directors as the Alternate Director of more than one Director, his voting rights shall be cumulative.

- 40.5** Unless the Directors determine otherwise, an Alternate Director may also represent his appointer at meetings of any committee of the Directors on which his appointer serves; and the provisions of this Article shall apply equally to such committee meetings as to meetings of the Directors.
- 40.6** If so authorised by an express provision in his notice of appointment, an Alternate Director may join in a written resolution of the Directors adopted pursuant to these Articles and his signature of such resolution shall be as effective as the signature of his appointer.
- 40.7** Save as provided in these Articles an Alternate Director shall not, as such, have any power to act as a Director or to represent his appointer and shall not be deemed to be a Director for the purposes of these Articles.
- 40.8** A Director who is not present at a meeting of the Directors, and whose Alternate Director (if any) is not present at the meeting, may be represented at the meeting by a proxy duly appointed, in which event the presence and vote of the proxy shall be deemed to be that of the Director. All the provisions of these Articles regulating the appointment of proxies by Members shall apply equally to the appointment of proxies by Directors.

41. Removal of Directors

Subject to the Memorandum and subject to any special rights conferred on the holder(s) of any existing shares or class of shares, the Company may from time to time by ordinary resolution remove any Director from office, whether or not appointing another in his stead.

42. Vacancy in the Office of Director

The office of Director shall be vacated if the Director:

- (a) is removed from office pursuant to these Articles;
- (b) dies or becomes bankrupt, or makes any arrangement or composition with his creditors generally;
- (c) is or becomes of unsound mind or an order for his detention is made under the Mental Health Law of the Cayman Islands or any analogous law of a jurisdiction outside the Cayman Islands, or dies; or
- (d) resigns his office by notice in writing to the Company.

43. Remuneration of Directors

The remuneration (if any) of the Directors shall, subject to any direction that may be given by the Company in general meeting, be determined by the Directors as they may from time to time determine and shall be deemed to accrue from day to day. The Directors may also be paid all travel, hotel and other expenses properly incurred by them in attending and returning from the meetings of the Board, any committee appointed by the Board, general meetings of the Company, or in connection with the business of the Company or their duties as Directors generally.

44. Defect in Appointment of Director

All acts done in good faith by the Board or by a committee of the Board or by any person acting as a Director shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or person acting as aforesaid, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and was qualified to be a Director.

45. Directors to Manage Business

The business of the Company shall be managed and conducted by the Board. In managing the business of the Company, the Board may exercise all such powers of the Company as are not, by the Law or by these Articles, required to be exercised by the Company in general meeting subject, nevertheless, to these Articles, the provisions of the Law and to such directions as may be prescribed by the Company in general meeting.

46. Powers of the Board of Directors

Without limiting the generality of Article 45 and subject to the Memorandum, the Board may:

- (a) appoint, suspend, or remove any manager, secretary, clerk, agent or employee of the Company and may fix- their remuneration and determine their duties;
- (b) exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and may issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or any third party;
- (c) appoint one or more Directors to the office of managing director or chief executive officer of the Company, who shall, subject to the control of the Board, supervise and administer all of the general business and affairs of the Company;
- (d) appoint a person to act as manager of the Company's day-to-day business and may entrust to and confer upon such manager such powers and duties as it deems appropriate for the transaction or conduct of such business;

- (e) by power of attorney, appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Board, to be an attorney of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board) and for such period and subject to such conditions as it may think fit and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions so vested in the attorney. Such attorney may, if so authorised under the seal of the Company, execute any deed or instrument under such attorney's person seal with the same effect as the affixation of the seal of the Company;
- (f) procure that the Company pays all expenses incurred in promoting and incorporating the Company;
- (g) delegate any of its powers (including the power to sub-delegate) to a committee of one or more persons appointed by the Board and every such committee shall conform to such directions as the Board shall impose on them. Subject to any directions or regulations made by the Directors for this purpose, the meetings and proceedings of any such committee shall be governed by the provisions of these Articles regulating the meetings and proceedings of the Board, including provisions for written resolutions;
- (h) delegate any of its powers (including the power to sub-delegate) to any person on such terms and in such manner as the Board sees fit;
- (i) present any petition and make any application in connection with the liquidation or reorganisation of the Company;
- (j) in connection with the issue of any share, pay such commission and brokerage as may be permitted by law; and
- (k) authorise any company, firm, person or body of persons to act on behalf of the Company for any specific purpose and in connection therewith to execute any agreement, document or instrument on behalf of the Company.

47. Register of Directors and Officers

47.1 The Board shall cause to be kept in one or more books at the registered office of the Company a Register of Directors and Officers in accordance with the Law and shall enter therein the following particulars with respect to each Director and Officer:

- (a) first name and surname; and
- (b) address.

47.2 The Board shall, within the period of thirty days from the occurrence of:

- (a) any change among its Directors and Officers; or
- (b) any change in the particulars contained in the Register of Directors and Officers,

cause to be entered on the Register of Directors and Officers - the particulars of such change and the date on which such change occurred, and shall notify the Registrar of Companies of any such change that takes place.

48. Officers

The Officers shall consist of a Secretary and such additional Officers as the Board may determine all of whom shall be deemed to be Officers for the purposes of these Articles. The holders of at least a majority of the then outstanding Series B Preferred Shares will have the right to appoint an internal auditor of the Company for (a) monitoring the use of corporate funds of the Company, (b) monitoring the maintenance and protection of the intellectual property of the Company and (c) co-signing expenditures of the Company for a transaction or a series of related transactions exceeding 30% of the total assets of the Company as of the end of the last Financial Year.

49. Appointment of Officers

The Secretary (and additional Officers, if any) shall be appointed by the Board from time to time.

50. Duties of Officers

The Officers shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to them by the Board from time to time.

51. Remuneration of Officers

The Officers shall receive such remuneration as the Board may determine.

52. Conflicts of Interest

52.1 Any Director, or any Director's firm, partner or any company with whom any Director is associated, may act in any capacity for, be employed by or render services to the Company and such Director or such Director's firm, partner or company shall be entitled to remuneration as if such Director were not a Director. Nothing herein contained shall authorise a Director or Director's firm, partner or company to act as Auditor to the Company.

52.2 A Director who is directly or indirectly interested in a contract or proposed contract or arrangement with the Company shall declare the nature of such interest as required by law.

52.3 Notwithstanding a declaration being made pursuant to this Article, a Director may not vote in respect of any contract or proposed contract or arrangement in which such Director is interested and may not be counted in the quorum for such meeting.

53. Indemnification and Exculpation of Directors and Officers

53.1 The Directors and Officers of the Company and any trustee for the time being acting in relation to any of the affairs of the Company and every former director, officer and their respective heirs, executors, administrators, and personal representatives (each of which persons being referred to in this Article as an "indemnified party") shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts, and no indemnified party shall be answerable for the acts, receipts, neglects or defaults of the others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto, provided, that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said persons. Each Member agrees to waive any claim or right of action such Member might have, whether individually or by or in the right of the Company, against any Director or Officer on account of any action taken by such Director or Officer, or the failure of such Director or Officer to take any action in the performance of his duties with or for the Company, provided, that such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director or Officer.

53.2 The Company may purchase and maintain insurance for the benefit of any Director or Officer of the Company against any liability incurred by him in his capacity as a Director or Officer of the Company or indemnifying such Director or Officer in respect of any loss arising or liability attaching to him by virtue of any rule of law in respect of any negligence, default, breach of duty or breach of trust of which the Director or Officer may be guilty in relation to the Company or any subsidiary thereof.

54. Board Meetings

Unless otherwise determined by the vote of a majority of the Directors (including at least one (1) Series B Director) then in office, the Board shall meet at least quarterly in accordance with an agreed-upon schedule. Subject to the Memorandum, a resolution put to the vote at a meeting of the Board shall be carried by the affirmative votes of a majority of the votes cast and in the case of an equality of votes the resolution shall fail.

55. Notice of Board Meetings

A Director may, and the Secretary on the requisition of a Director shall, at any time summon a meeting of the Board. At least 14 days' notice of a meeting of the Board shall be given to each Director stating the date, place and time at which the meeting is to be held, and, as far as practicable, the business to be conducted at such meeting. Notice of a meeting shall be deemed to be duly communicated or sent to such Director by post, cable, telex, telecopier, facsimile, electronic mail or other mode of representing words in a legible form at such Director's last known address or any other address given by such Director to the Company for this purpose. Notice of a meeting of the Board may not be given to a Director verbally.

56. Participation in Meetings by Telephone

Directors may participate in any meeting of the Board by means of such telephone, electronic or other communication facilities as permit all persons participating in the meeting to communicate with each other simultaneously and instantaneously, and participation in such a meeting shall constitute presence in person at such meeting.

57. Quorum at Board Meetings

All meetings of the Board shall require a quorum of at least four Directors. If such a quorum is not present within one hour from the time appointed for the meeting, the meeting shall adjourn to such place and time as those Directors who did attend shall decide or, if no such decision is reached, at the same place and time seven days later, at which meeting any three (3) Directors present shall constitute a valid quorum; provided that notice of such adjourned meeting shall have been delivered to all Directors at least five days prior to the date of such adjourned meeting.

58. Board to Continue in the Event of Vacancy

The Board may act notwithstanding any vacancy in its number.

59. Chairman to Preside

Unless otherwise agreed by a majority of the Directors attending, the Chairman, if there be one, shall act as chairman at all meetings of the Board at which such person is present. In his absence a chairman shall be appointed or elected by the Directors present at the meeting. The Chairman shall not have a casting vote.

60. Written Resolutions

- 60.1** Anything which may be done by resolution of the Directors may, without a meeting and without any previous notice being required, be done by resolution in writing signed by, or in the case of a Director that is a corporation whether or not a company within the meaning of the Law, on behalf of, all the Directors.
- 60.2** A resolution in writing may be signed by, or in the case of a Director that is a corporation whether or not a company within the meaning of the Law, on behalf of, all the Directors in as many counterparts as may be necessary.
- 60.3** A resolution in writing made in accordance with this Article is as valid as if it had been passed by the Directors in a directors' meeting, and any reference in any Article to a meeting at which a resolution is passed or to Directors voting in favour of a resolution shall be construed accordingly.
- 60.4** A resolution in writing made in accordance with this Article shall constitute minutes for the purposes of the Law.
- 60.5** For the purposes of this Article, the date of the resolution is the date when the resolution is signed by, or in the case of a Director that is a corporation whether or not a company within the meaning of the Law, on behalf of, the last Director to sign (or Alternate Director to sign if so authorised under Article 40.6), and any reference in any Article to the date of passing of a resolution is, in relation to a resolution made in accordance with this Article, a reference to such date.

61. Validity of Prior Acts of the Board

No regulation or alteration to these Articles made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if that regulation or alteration had not been made.

CORPORATE RECORDS

62. Minutes

The Board shall cause minutes to be duly entered in books provided for the purpose:

- (a) of all elections and appointments of Officers;

(b) of the names of the Directors present at each meeting of the Board and of any committee appointed by the Board; and

(c) of all resolutions and proceedings of general meetings of the Members, meetings of the Board, meetings of managers and meetings of committees appointed by the Board.

63. Register of Mortgages and Charges

63.1 The Directors shall cause to be kept the Register of Mortgages and Charges required by the Law.

63.2 The Register of Mortgages and Charges shall be open to inspection in accordance with the Law, at the office of the Company on every business day in the Cayman Islands, subject to such reasonable restrictions as the Board may impose, so that not less than two hours in each such business day be allowed for inspection.

64. Form and Use of Seal

64.1 The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors in that behalf; and, until otherwise determined by the Directors, the Seal shall be affixed in the presence of a Director or the Secretary or an assistant secretary or some other person authorised for this purpose by the Directors or the committee of Directors.

64.2 Notwithstanding the foregoing, the Seal may without further authority be affixed by way of authentication to any document required to be filed with the Registrar of Companies in the Cayman Islands, and may be so affixed by any Director, Secretary or assistant secretary of the Company or any other person or institution having authority to file the document as aforesaid.

64.3 The Company may have one or more duplicate Seals, as permitted by the Law; and, if the Directors think fit, a duplicate Seal may bear on its face of the name of the country, territory, district or place where it is to be issued.

ACCOUNTS

65. Books of Account

65.1 The Board shall cause to be kept proper records of account with respect to all transactions of the Company and in particular with respect to:

(a) all sums of money received and expended by the Company and the matters in respect of which the receipt and expenditure relates;

(b) all sales and purchases of goods by the Company; and

(c) all assets and liabilities of the Company.

65.2 Such records of account shall be kept and proper books of account shall not be deemed to be kept with respect to the matters aforesaid if there are not kept, at such place as the Board thinks fit, such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

65.3 No Member (not being a Director) shall have any right of inspecting any account or book or document of the Company.

66. Financial Year End

The financial year end of the Company shall be 31st December in each year but, subject to any direction of the Company in general meeting, the Board may from time to time prescribe some other period to be the financial year, provided, that the Board may not without the sanction of an ordinary resolution prescribe or allow any financial year longer than eighteen months.

AUDITS

67. Audit

Nothing in these Articles shall be construed as making it obligatory to appoint Auditors.

68. Appointment of Auditors

68.1 The Company may in general meeting appoint Auditors to hold office for such period as the Members may determine.

68.2 Whenever there are no Auditors appointed as aforesaid the Directors may appoint Auditors to hold office for such period as the Directors may determine or earlier removal from office by the Company in general meeting.

68.3 The Auditor may be a Member but no Director, Officer or employee of the Company shall, during his continuance in office, be eligible to act as an Auditor of the Company.

69. Remuneration of Auditors

Unless fixed by the Company in general meeting the remuneration of the Auditor shall be as determined by the Directors.

70. Duties of Auditor

The Auditor shall make a report to the Members on the accounts examined by him and on every set of financial statements laid before the Company in general meeting, or circulated to Members, pursuant to this Article during the Auditor's tenure of office.

71. Access to Records

71.1 The Auditor shall at all reasonable times have access to the Company's books, accounts and vouchers and shall be entitled to require from the Company's Directors and Officers such information and explanations as the Auditor thinks necessary for the performance of the Auditor's duties and, if the Auditor fails to obtain all the information and explanations which, to the best of his knowledge and belief, are necessary for the purposes of their audit, he shall state that fact in his report to the Members.

71.2 The Auditor shall be entitled to attend any general meeting at which any financial statements which have been examined or reported on by him are to be laid before the Company and to make any statement or explanation he may desire with respect to the financial statements.

VOLUNTARY WINDING-UP AND DISSOLUTION

72. Winding-Up

72.1 The Company may be voluntarily wound-up by a special resolution of the Members.

72.2 If the Company shall be wound up the liquidator may, with the sanction of a special resolution, divide amongst the Members in specie or in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in the trustees upon such trusts for the benefit of the Members as the liquidator shall think fit, but so that no Member shall be compelled to accept any shares or other securities or assets whereon there is any liability.

CHANGES TO CONSTITUTION

73. **Changes to Articles**

Subject to the Law and to the conditions contained in the Memorandum, the Company may, by special resolution, alter or add to its Articles.

74. **Changes to the Memorandum of Association**

Subject to the Law and to the conditions contained in the Memorandum, the Company may from time to time by special resolution alter its Memorandum of Association with respect to any objects, powers or other matters specified therein.

75. **Discontinuance**

The Board may exercise all the powers of the Company to transfer by way of continuation the Company to a named country or jurisdiction outside the Cayman Islands pursuant to the Law.

VOTING AGREEMENT

VOTING AGREEMENT (this "Agreement") made on the 16th day of September, 2013

AMONG:

- (1) **SOGO INC.**, an exempted company with limited liability organized and existing under the laws of the Cayman Islands whose with executive offices at Level 12, Sohu.com Internet Plaza, No. 1 Unit Zhongguancun East Road, Haidian District, Beijing 100084, China (the "Company");
- (2) **SOHU.COM (SEARCH) LIMITED**, an exempted company with limited liability organized and existing under the laws of the Cayman Islands with its registered office at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands ("Sohu Search");
- (3) **PHOTON GROUP LIMITED**, a company incorporated under the laws of the British Virgin Islands ("Photon");
- (4) **XIAOCHUAN WANG** (王晓川), a citizen of the PRC, and his affiliated company, Rose Shadow Company Limited, an exempted company with limited liability under the laws of the British Virgin Islands (together, "WXC"); and
- (6) **OTHER MEMBERS OF SOGOU MANAGEMENT** and their respective affiliated companies as set out in Schedule 1 hereto (together with WXC, collectively, "Sogou Management" and each, a "Member of Sogou Management").

Sohu Search, Photon, WX and the Members of Sogou Management are hereinafter referred to, collectively, as the "Shareholders" or, individually, as a "Shareholder."

WITNESSETH:

WHEREAS, the Company, Sohu Search, Photon, and THL A21 LIMITED, a British Virgin Islands company ("Tencent"), are entering into a Subscription Agreement pursuant to which, among other things, the Company will issue to Tencent, and Tencent will purchase from the Company, Series B Preferred Shares and Class B Ordinary Shares (the "Subscription Agreement");

WHEREAS, each Shareholder considers it to be in his or its best interest for the Company to enter into the Subscription Agreement; and

WHEREAS, as a condition to the execution and delivery of the Subscription Agreement, each of the Shareholders has agreed, upon the terms and subject to the conditions set forth herein, to enter into this Agreement and to abide by the covenants and obligations set forth herein.

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Definitions

(a) “Beneficial Ownership” by a Person of any security includes ownership by any Person who, directly or indirectly, through any contract, agreement or other instrument, arrangement, understanding, relationship or otherwise (whether or not in writing), has or shares: (i) voting power which includes the power to vote, or to direct the voting of, such security; and/or (ii) investment power which includes the power to dispose, or to direct the disposition, of such security; and shall otherwise be interpreted in accordance with the term “beneficial ownership” as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Without duplicative counting of the same securities by the same holder, securities Beneficially Owned by a Person will include securities Beneficially Owned by all Affiliates of such Person and all other Persons with whom such Person would constitute a “group” within the meaning of Section 13(d) of the Exchange Act. The terms “Beneficially Own,” “Beneficially Owned” and “Beneficial Owner” shall have correlative meanings.

(b) “Class A Ordinary Shares” means the Class A ordinary shares, par value US\$0.001 per share, of the Company.

(c) “Company Shares” means the Class A Ordinary Shares, Series A Preferred Shares, and other voting securities of the Company that a Shareholder from time to time Beneficially Owns, or acquires Beneficial Ownership of after the date of this Agreement, including securities issued with respect to, upon conversion of, or in exchange or substitution of such Company Shares; provided, however, that in the case of WXC, “Company Shares” does not include any Class A Ordinary Shares, Series A Preferred Shares, and other voting securities of the Company that are not WXC Employee Shares.

(d) “Person” means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization or a governmental entity or any department, agency or political subdivision thereof or any other entity.

(e) “Series A Preferred Shares” means the series A preferred shares, par value US\$0.001 per share, of the Company.

(f) “Series B Preferred Shares” means the series B preferred shares, par value US\$0.001 per share, of the Company.

(g) “WXC Employee Shares” means Class A Ordinary Shares, Series A Preferred Shares, and other voting securities of the Company that are issued by the Company to WXC in connection with his employment relationship with the Company or any of its parents, subsidiaries or variable interest entities or otherwise acquired by WXC from the Company. For the avoidance of doubt, WXC Employee Shares do not include any Company Share(s) that WXC may acquire from time to time from third parties, including any Company Share(s) that WXC may acquire in the public market following the Company’s completion of an initial public offering of Company Shares.

Section 2. Agreement to Vote; Proxy.

(a) Voting Agreement. Each of the Shareholders hereby irrevocably and unconditionally agrees that, during the Term (as defined below), (i) he or it shall vote, or cause to be voted, at any regular or special meeting of shareholders of the Company, or any adjournment thereof, however called, or in any action by written consent of the shareholders of the Company, all of the Company Shares then Beneficially Owned by such Shareholder (or as to which he or it then has voting power) as may be necessary to elect such individuals as may be designated by Sohu Search in accordance with the memorandum of association and articles of the Company (the "M&A") (such individuals or their successors, as the case may be, each a "Sohu Director" and collectively, the "Sohu Directors"), as a director of the board of directors (the "Board") of the Company in accordance with this Agreement and the M&A and (ii) he or it shall take all actions within his or its power to cause an election or an action by written consent to be proposed as may be necessary to effect the foregoing.

(b) Grant of Proxy and Designation as Attorney-in-Fact. In furtherance of and in addition to the voting agreement under Section 2(a) hereof, each of the Shareholders hereby irrevocably grants to and appoints Sohu Search (the "Proxy") as the Shareholder's proxy and attorney-in-fact for and in the Shareholder's name, place and stead, to vote such Shareholder's Company Shares at any meeting or written consent of the shareholders of the Company called or circulated with respect to any resolution proposed to be adopted by the Company's shareholders and to execute in such Shareholder's name as attorney-in-fact any such written consent, with respect to the election of any Sohu Director. Each Shareholder hereby acknowledges and confirms that this irrevocable proxy and designation as attorney-in-fact set forth in this Section 2(b) are given in connection with the execution of this Agreement, and that such irrevocable proxy and designation as attorney-in-fact are given to secure the performance of the duties of such Shareholder under this Agreement and for no other purpose. Each Shareholder hereby (i) acknowledges and confirms that such irrevocable proxy and designation as attorney-in-fact are coupled with an interest and may under no circumstances be revoked by such Shareholder, (ii) acknowledges and confirms that the Proxy may lawfully do or cause to be done the actions set forth herein by virtue hereof, and (iii) understands and agreed that a legend may be placed on any certificates representing such Shareholder's Company Shares regarding this Section 2(b) and the contents hereof

(c) Sohu Search shall inform the Board and the Shareholders from time to time with sufficient advance notice (but in any event, no later than forty-five (45) calendar days before any action is to be taken in reliance thereon) of the name(s) of its nominees for the Sohu Directors; provided that the initial nominees for the Sohu Directors shall be Charles Zhang, Xiaochuan Wang and Carol Yu.

(d) Except as otherwise provided in Section 2(b) hereof, each of the Shareholders agrees that he or it will not, during the Term, (i) grant any proxy, power-of-attorney or other authorization in or relating to his or its Company Shares, (ii) deposit any of his or its Company Shares into a voting trust or enter into a voting agreement or arrangement relating to his or its Company Shares or (iii) take any other action that would in any way restrict, limit or interfere with the performance of his or its obligations under this Agreement. Each of the Shareholders represents and warrants to the other parties hereto that (i) he or it is the Beneficial Owner of all of its Company Shares, free and clear of any proxy, power-of-attorney or other authorization in or relating to his or its Company Shares, (ii) his or its Company Shares have not been deposited into a voting trust, and such Shareholder has not entered into a voting agreement or arrangement with respect to such Company Shares and (iii) such Shareholder has not taken any other action that would in any way restrict, limit or interfere with the performance of his or its obligations under this Agreement.

Section 3. Vacancy and Removal of Directors.

(a) Following any vacancy resulting from the death, removal or resignation of any individual serving as a Sohu Director, such vacancy shall be filled with the designee of Sohu Search pursuant to Section 2 hereof, and the Shareholders shall cause the Company to take all necessary action to fill any such vacancy as promptly as practicable.

(b) Each Shareholder agrees not to vote, and not to cause to be voted, any of the Company Shares then Beneficially Owned by him or it except as directed by Sohu Search.

Section 4. Restrictions on Transfer by the Shareholders. In the event any of the Shareholders sells, transfers or otherwise disposes of in any way, all or any part of or any interest in any of their Company Shares to any third party, it shall cause such third party to execute and deliver a Joinder Agreement substantially in the form attached hereto as Exhibit A.

Section 5. Further Assurances. Each party hereto shall take or cause to be taken such further actions as it is legally able to take, and shall execute, deliver and file or cause to be executed, delivered and filed such further documents and instruments as may be reasonably required or requested by the other parties in order to effectuate fully the purposes, terms and conditions of this Agreement.

Section 6. Specific Performance. The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. Accordingly each party to this Agreement (a) shall be entitled to an injunction or injunctions, specific performance and other equitable relief to prevent breaches or threatened breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in the forum described in Section 13, without proof of damages or otherwise, this being in addition to any other remedy at law or in equity, and (b) hereby waives any requirement for the posting of any bond or similar collateral in connection therewith. Each party hereto agrees that he or it will not oppose the granting of an injunction, specific performance and other equitable relief on the basis that (i) any other party has an adequate remedy at law or (ii) an award of specific performance is not an appropriate remedy for any reason at law or equity.

Section 7. Captions. The captions, headings and arrangements used in this Agreement are for convenience only and do not in any way limit or amplify the terms and provisions hereof.

Section 8. Notices. All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be deemed given (a) upon personal delivery, (b) upon delivery if sent via a courier service, or (c) upon receipt of electronic or other confirmation of transmission if sent via email or facsimile, in each case, at the email addresses or facsimile numbers (or at such other email address or facsimile number for a party as shall be specified by like notice) set forth below:

(i) if to the Company:

SOGOU INC.
Floor 4, Willow House
Cricket Square, P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands
Attention: Xiaochuan Wang
Email: xiaochuanwang@sohu-inc.com

with a copy to:

Goulston & Storrs, P.C.
400 Atlantic Avenue
Boston, MA 02110
U.S.A
Attention: Timothy B. Bancroft
Facsimile: +1 617 574 7568
Email: tbancroft@goulstonstorrs.com

(ii) if to Sohu Search:

SOHU.COM (SEARCH) LIMITED
Floor 4, Willow House
Cricket Square, P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands Attention: Carol Yu
Facsimile No.: +86 10 6272 6988
Email: carol@sohu-inc.com

with copies to:

Goulston & Storrs, P.C.
400 Atlantic Avenue
Boston, MA 02110
U.S.A
Attention: Timothy B. Bancroft
Facsimile: +1 617 574 7568
Email: tbancroft@goulstonstorrs.com

(iii) if to Photon:

Photon Group Limited
Floor 4, Willow House
Cricket Square, P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands Attn: Charles Zhang
Email: liwei@sohu-inc.com

(iv) if to each of the Member of Sogou Management:

c/o Sohu.com Inc.
Sohu.com Internet Plaza
Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road
Haidian District, Beijing 100190, China
Attention: Xiaochuan Wang
Email: xiaochuanwang@sohu-inc.com

Section 9. Term. This Agreement shall terminate upon the date that no more than one Shareholder Beneficially Owns Company Shares (the period from the date hereof until such termination date, the "Term"). Notwithstanding the foregoing, this Agreement and all obligations of the parties hereunder shall automatically terminate at any time upon the written agreement of each of the parties hereto.

Section 10. Amendments and Waivers. This Agreement may not be amended, modified or supplemented except by an instrument in writing signed by each party hereto.

Section 11. Share Splits, Share Dividends, etc. In the event of any issuance of Company Shares hereafter to any of the parties hereto (including, without limitation, in connection with any share split, share dividend, recapitalization, reorganization or the like), such securities shall become subject to this Agreement.

Section 12. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

Section 13. Governing Law; Dispute Resolution.

(a) This Agreement shall be governed by and construed in accordance with the laws of New York, without giving effect to the choice of law principles thereof.

(b) 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 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 is submitted in accordance with the Arbitration Rules. There shall be one (1) arbitrator, selected in accordance with the Arbitration Rules. The award of the arbitrator shall be final, conclusive and binding on the parties hereto. Judgment may be entered on the arbitrator's award in any court having competent jurisdiction. The parties hereto 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.

Section 14. Entire Agreement. This Agreement is intended to be the sole agreement of the parties hereto as it relates to the subject matter hereof and supersede all other agreements of the parties hereto relating to the subject matter hereof.

Section 15. Expenses. All costs and expenses (including all fees and disbursements of counsel, accountants, investment bankers, experts and consultants to a party) incurred in connection with this Agreement shall be paid by the party incurring such costs and expenses.

Section 16. Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be duly executed on its behalf as of the day and year first above written.

SOGOU INC.

By: _____
Name: _____
Title: _____

SOHU.COM (SEARCH) LIMITED

By: _____
Name: _____
Title: _____

PHOTON GROUP LIMITED

By: _____
Name: _____
Title: _____

Xiaochuan Wang

Hongtao Yang

Tao Hong

Liyun Ru

Tao Wu

[Signature Page to Voting Agreement]

ROSE SHADOW COMPANY LIMITED

By: _____
Name: Yunhong Sui
Title: Director

DOUBLE ACTING INVESTMENT LIMITED

By: _____
Name: Yunhong Sui
Title: Director

FAST APPROACH HOLDING LIMITED

By: _____
Name: Yunhong Sui
Title: Director

LUXURY MASTER LIMITED

By: _____
Name: Yunhong Sui
Title: Director

HONOR SOURCE INVESTMENT LIMITED

By: _____
Name: Yunhong Sui
Title: Director

[Signature Page to Voting Agreement]

SCHEDULE 1

SOGO MANAGMENT

Xiaochuan Wang

Tao Hong

Liyun Ru

Hongtao Yang

Tao Wu

Rose Shadow Company Limited

Double Acting Investment Limited

Fast Approach Holding Limited

Luxury Master Limited

Honor Source Investment Limited

Schedule 1

EXHIBIT A

JOINDER AGREEMENT

This Joinder Agreement (“Joinder Agreement”) is executed by the undersigned (the “Transferee”) pursuant to the terms of that certain Voting Agreement dated as of [—], 2013 (the “Agreement”) by and among the Company and the Shareholders. Capitalized terms used but not defined herein shall have the respective meanings ascribed to such terms in the Agreement. By the execution of this Joinder Agreement, the Transferee agrees as follows:

(a) Acknowledgment. Transferee acknowledges that Transferee is acquiring Company Shares subject to the terms and conditions of the Agreement.

(b) Agreement. Transferee (i) agrees that all Company Shares now or hereafter acquired by, transferred to or otherwise held by Transferee shall be bound by and subject to the terms of the Agreement, (ii) hereby adopts the Agreement with the same force and effect as if Transferee were originally a party thereto and (iii) agrees to be subject to the obligations and restrictions of a Shareholder thereunder.

(c) Notice. Any notice required or permitted by the Agreement shall be given to Transferee at the address listed beside Transferee’s signature below.

EXECUTED AND DATED this day of .

TRANSFEREE:

By: _____
Name and Title

Address: _____

Fax: _____

Accepted and Agreed:

SOGO INC.

By: _____

Title: _____

THIS TERMINATION AGREEMENT (this "Agreement") is made and entered into this 16th day of September, 2013

AMONG:

- (1) **SOGOU INC.**, a limited liability company organized and existing under the laws of the Cayman Islands with its registered office at Floor 4, P.O. Box 2804, George Town, Grand Cayman KYI-1112, Cayman Islands, Cayman Islands (the "Company");
- (2) **CHINA WEB SEARCH (HK) LIMITED**, a company limited by shares organized and existing under the laws of Hong Kong with its registered office at Suite 801, Winsome House, 73 Wyndham Street, Central, Hong Kong ("China Web Search");
- (3) **PHOTON GROUP LIMITED**, a company incorporated under the laws of the British Virgin Islands ("Photon"); and
- (4) **SOHU.COM (SEARCH) LIMITED**, an exempted company with limited liability incorporated under the laws of the Cayman Islands with its registered office at Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands ("Sohu Search").

The Company, China Web Search, Photon and Sohu Search are hereinafter collectively referred to as the "Parties" or individually as the "Party".

RECITALS:

- (A) The Parties are parties to that certain Amended and Restated Investors' Rights Agreement dated June 29, 2012 (as amended to date, the "Investors' Rights Agreement").
- (B) The Parties are parties to that certain Amended and Restated Right of First Refusal and Co-Sale Agreement dated June 29, 2012 (as amended to date, the "ROFR and Co-Sale Agreement").
- (C) The Parties wish to terminate the Investors' Rights Agreement and the ROFR and Co-Sale Agreement (collectively, the "Existing Agreements") and to release each other from any and all obligations pursuant to, under or in respect of the Existing Agreements, all upon the terms and subject to the conditions of this Agreement.

NOW IT IS HEREBY AGREED as follows:

1. TERMINATION OF THE EXISTING AGREEMENTS

- 1.1. The Parties hereby agree that the Existing Agreements shall be irrevocably and unconditionally terminated and shall cease to have any further force or effect immediately upon the date hereof.

- 1.2. Each Party (a) acknowledges and confirms that none of the Parties nor any of their respective affiliates, shareholders, directors, officers or employees has any outstanding rights, benefits, obligations or liabilities under, pursuant to or arising from either of the Existing Agreements and (b) irrevocably and unconditionally releases and forever discharges each of the other Parties, such other Party's affiliates, shareholders, directors, officers and employees from any and all duties, obligations and liabilities under, pursuant to or arising from either of the Existing Agreements.

2. MISCELLANEOUS

- 2.1. Sections 3.12 (Confidentiality), 5.4 (Governing Law and Dispute Resolution), 5.5 (Counterparts), 5.7 (Notices), 5.8 (Entire Agreement; Amendments and Waivers), and 5.13 (Attorney's Fees) of the Investors' Rights Agreement shall be incorporated by reference, and shall apply *mutatis mutandis* to this Agreement.

[The remainder of this page is intentionally left blank]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the date and year first written above.

SOGO INC.

By: _____
Name: _____
Title: _____

SOHU.COM (SEARCH) LIMITED

By: _____
Name: _____
Title: _____

CHINA WEB SEARCH (HK) LIMITED

By: _____
Name: _____
Title: _____

PHOTON GROUP LIMITED

By: _____
Name: _____
Title: _____

SIGNATURE PAGE TO TERMINATION AGREEMENT

REPURCHASE OPTION AGREEMENT

This Repurchase Option Agreement (this "Agreement") is made and entered into as of September 16, 2013 by and between Sogou Inc., a Cayman Islands company (the "Company"), and Sohu.com (Search) Limited, a Cayman Islands company (the "Shareholder"). The Company and the Shareholder are sometimes referred to herein individually as a "Party," and together as the "Parties."

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Repurchase Option.

1.1 Grant of Option. The Shareholder hereby grants to the Company the option (the "Repurchase Option") exercisable by the Company at its sole election by written notice to the Shareholder delivered at any time on or after March 16, 2014, to repurchase from the Shareholder 24,000,000 Series A Preferred Shares ("Series A Preferred Shares"), of the Company held by the Shareholder for a price of \$3.28 per Series A Preferred Share (\$78,807,483 in the aggregate) (the "Repurchase Price") payable by wire transfer of immediately available funds to the Shareholder's Designated Bank Account (as defined below). Following such exercise and payment and the removal of the Shareholder from the Company's register of members in respect of the purchased Series A Preferred Shares, the Shareholder will have no further right, title, or interest in or to the Series A Preferred Shares so repurchased. The Shareholder acknowledges and agrees that the Company's payment of the Repurchase Price will be in lieu of any accruing or other dividend to which the Shareholder might be entitled under the Company's Memorandum and Articles of Association, as then in effect, or otherwise up to and including the date that the Shareholder ceases to be a member of the Company.

1.2 No Action Required. For the avoidance of doubt, the Company's exercise of the Repurchase Option shall require no further action by the Shareholder.

1.3 Instrument of Transfer. Prior to or simultaneously with the execution and delivery of this Agreement, the Shareholder has (i) executed and delivered to the Company an instrument of transfer and surrender (the "Instrument of Transfer"), in a form substantially similar to the form attached hereto as Exhibit A, and (ii) designated in writing to the Company a bank account (the "Designated Bank Account") to receive payment of the Repurchase Price upon the Company's exercise of the Repurchase Option. The Shareholder acknowledges and agrees that the Company will hold the executed Instrument of Transfer in order to enable the Company to cause all right, title, and interest in and to the Series A Preferred Shares to be transferred to the Company upon the Company's exercise of the Repurchase Option and payment of the Repurchase Price.

2. Irrevocable Proxy and Power of Attorney.

2.1 Voting. The Shareholder irrevocably agrees that from the date hereof until the earlier of the effective date of the Company's repurchase of the Shareholder's Series A Preferred Shares pursuant to the Repurchase Option, it shall abstain from voting at any meeting of the shareholders of the Company, or any adjournment thereof, however called, and in any action by written consent of the shareholders of the Company. The Shareholder hereby acknowledges and confirms that such agreement to abstain is coupled with an interest and may under no circumstances be revoked by the Shareholder.

3. Representations and Warranties of the Shareholder.

3.1 No Conflicts. The Shareholder hereby represents and warrants to the Company that the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not conflict with or result in any breach of any terms, conditions or provisions of or constitute a default under any agreement, commitment or other arrangement by which the Shareholder or any of the Shareholder's assets is bound or any decree, judgment, order, statute, rule or regulation applicable to the Shareholder.

3.2 Title to Series A Preferred Shares. The Shareholder hereby represents, warrants and covenants that the Shareholder is the sole owner of the Series A Preferred Shares and that the Series A Preferred Shares are owned by the Shareholder free and clear of all charges, pledges, liens, equities, hypothecations, mortgages, security interests, rights of first refusal, or other encumbrances of any nature whatsoever.

4. Miscellaneous.

4.1 Governing Law and Dispute Resolution.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to the conflicts of laws principles thereof.

(b) 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 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 is submitted in accordance with the Arbitration Rules. There shall be one (1) arbitrator, selected in accordance with the Arbitration Rules. The award of the arbitrator shall be final, conclusive and binding on the Parties. Judgment may be entered on the arbitrator's award in any court having competent jurisdiction. The Parties 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.

4.2 Entire Agreement; Amendment. This Agreement represents the entire agreement between the Parties with respect to the transactions contemplated hereby and supersedes all prior agreements, understandings or representations, whether oral or written, and may be waived or modified only by a subsequent written agreement signed by the Parties hereto.

4.3 No Assignment. This Agreement shall be binding upon and inure to the benefit of each of the Parties hereto and their respective successors and assigns. No Party may transfer or assign its rights or obligations under this Agreement without the prior written consent of the other Party and any purported transfer or assignment without such consent shall be void *ab initio* and without effect.

4.4 Notices. Notices and other communications to be given by any Party pursuant to the terms of this Agreement shall be given in writing to the respective Parties to the following addresses:

if to the Company:

Floor 4, Willow House
Cricket Square, P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands
Attention: Xiaochuan Wang
Email: xiaochuanwang@sohu-inc.com

with a copy to:

Goulston & Storrs, P.C.
400 Atlantic Avenue
Boston, MA 02110, U.S.A
Attention: Timothy B. Bancroft
Facsimile: +1 617 574 7568
Email: tbancroft@goulstonstorrs.com

if to the Shareholder:

Floor 4, Willow House
Cricket Square, P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands Attention: Carol Yu
E-mail: carol@sohu-inc.com

with a copy to:

Goulston & Storrs, P.C.
400 Atlantic Avenue
Boston, MA 02110, U.S.A
Attention: Timothy B. Bancroft
Facsimile: +1 617 574 7568
Email: tbancroft@goulstonstorrs.com

or to such other address or email address as the Party to whom notice is given may have previously furnished to the other in writing as provided herein. Any notice involving non-performance or termination shall be sent by hand delivery or recognized overnight courier. All other notices may also be sent by email, confirmed by mail. All notices shall be deemed to have been given when received, if hand delivered; when transmitted, if transmitted by email; upon confirmation of delivery, if sent by recognized overnight courier; and upon receipt if mailed.

4.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

4.6 Severability. In the event any provision of this Agreement is declared by a court of competent jurisdiction to be void or unenforceable or become unlawful in its operation, such provision shall not affect the rights and duties of the Parties with regard to the remaining provisions of this Agreement which shall continue as binding.

4.7 Further Actions. If at any time after the date of this Agreement any further actions are necessary, proper, advisable or convenient to carry out the purposes of this Agreement, then, as soon as is reasonably practicable, each of the Parties shall cooperate with one another to effectuate such actions at the requesting Party's expense.

4.8 Specific Performance. The Shareholder agrees that monetary damages will not be adequate compensation for breach of the Shareholder's obligations contained in this Agreement and further agrees that the Company shall be entitled to specific performance of this Agreement. The Shareholder irrevocably waives, and agrees not to assert in any action for specific performance of this Agreement, the defense that a remedy at law would be adequate.

[Signature Page Follows]

IN WITNESS whereof, the Parties have duly executed this Repurchase Option Agreement the day and year first above written.

THE COMPANY:

SOGOU INC.

By _____
Name:
Title:

THE SHAREHOLDER:

SOHU.COM (SEARCH) LIMITED

By _____
Name:
Title

EXHIBIT A

FORM OF INSTRUMENT OF TRANSFER AND SURRENDER

[Name of Shareholder] (the “**Transferor**”) does hereby surrender, assign and transfer [] Series A Preferred Shares, par value of US\$0.001 per share, of Sogou Inc. (the “**Transferee**”), standing in the Transferor’s name, unto the Transferee in accordance with section 37B of the Companies Law (2011 Revision).

This instrument may be executed in any number of counterparts and by the parties to it on separate counterparts, each of which when so executed and delivered shall be an original, but all the counterparts shall together constitute one and the same instrument.

Dated: , 2014

Signed for and on behalf of)
SOHU.COM (SEARCH) LIMITED, as Transferor)

)
in the presence of:)

Name:
Title:

Signed for and on behalf of)
Sogou Inc., as Transferee)

)
in the presence of:)

Name:
Title:

REPURCHASE OPTION AGREEMENT

This Repurchase Option Agreement (this "Agreement") is made and entered into as of September 16, 2013 by and between Sogou Inc., a Cayman Islands company (the "Company"), and China Web Search (HK) Limited (the "Shareholder"). The Company and the Shareholder are sometimes referred to herein individually as a "Party," and together as the "Parties."

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Repurchase/Put Option.

1.1 Grant of Option. The Shareholder hereby grants to the Company the option (the "Repurchase Option") exercisable by the Company at its sole election by written notice to the Shareholder delivered at any time on or after March 16, 2014 and prior to July 31, 2014 to repurchase from the Shareholder 14,400,000 Series A Preferred Shares ("Series A Preferred Shares") of the Company, representing 100% of Series A Preferred Shares held by the Shareholder as of the date hereof, for a price of \$3.28 per Series A Preferred Share (or \$47,284,490 in the aggregate) (the "Repurchase Price") payable by wire transfer of immediately available funds to the Shareholder's Designated Bank Account (as defined below).

1.2 Grant of Put. The Company hereby grants to the Shareholder an option (the "Put Option") exercisable by the Shareholder at its sole election by written notice to the Company delivered at any time during the period between the date hereof and July 31, 2014 to sell to the Company 14,400,000 Series A Preferred Shares of the Company, representing 100% of Series A Preferred Shares held by the Shareholder as of the date hereof, for a price of \$3.28 per Series A Preferred Share (or \$47,284,490 in the aggregate) (the "Sale Price") payable by wire transfer of immediately available funds to the Shareholder's Designated Bank Account (as defined below).

1.3 Effect of Exercise of Option or Put. Following such exercise of either the Repurchase Option or the Put Option and payment of the Repurchase Price or the Sale Price (as applicable) and the removal of the Shareholder from the Company's register of members in respect of the purchased Series A Preferred Shares, the Shareholder will have no further right, title, or interest in or to the Series A Preferred Shares so repurchased by the Company. The Shareholder acknowledges and agrees that the Company's payment of the Repurchase Price/Sale Price will be in lieu of any accruing or other dividend to which the Shareholder might be entitled under the Company's Memorandum and Articles of Association, as then in effect, or otherwise up to and including the date that the Shareholder ceases to be a member of the Company.

1.4 No Action Required. For the avoidance of doubt, the Company's exercise of the Repurchase Option shall require no further action by the Shareholder, and the Shareholder's exercise of the Put Option shall also require no further action by the Company, except for the payment of the Repurchase Price or Sale Price, as applicable, and the signing of the Instrument of Transfer.

1.5 Instrument of Transfer. No later than three days after delivery of the option notice under Section 1.1 or 1.2, as the case may be, (i) the Company and the Shareholder shall execute and deliver to each other an instrument of transfer and surrender (the "Instrument of Transfer"), in a form substantially similar to the form attached hereto as Exhibit A, and (ii) the Shareholder shall designate in writing to the Company a bank account (the "Designated Bank Account") to receive payment of the Repurchase Price or Sale Price upon the Company's exercise of the Repurchase Option or the Shareholder's exercise of the Put Option, as applicable.

2. Irrevocable Proxy and Power of Attorney.

2.1 Voting. Subject to compliance by the Company with its obligations under this Agreement, the Shareholder irrevocably agrees that from the date hereof until the earlier of the effective date of the Company's repurchase of the Shareholder's Series A Preferred Shares pursuant to the Repurchase Option or Put Option, it shall abstain from voting at any meeting of the shareholders of the Company, or any adjournment thereof, however called, and in any action by written consent of the shareholders of the Company. The Shareholder hereby acknowledges and confirms that such agreement to abstain is coupled with an interest and may under no circumstances be revoked by the Shareholder.

3. Representations and Warranties of the Parties.

3.1 Representation and Warranties of the Parties. Each Party hereby represents, warrants and covenants to the other Party that the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not conflict with or result in any breach of any terms, conditions or provisions of or constitute a default under any agreement, commitment or other arrangement by which such Party or such Party's properties is bound or any decree, judgment, order, statute, rule or regulation applicable to such Party.

3.2 Representation and Warranties of the Shareholder. The Shareholder hereby represents, warrants and covenants that the Shareholder is the sole owner of the Series A Preferred Shares, that the Series A Preferred Shares constitute the Shareholder's entire direct or indirect ownership interest in the Company, that the Series A Preferred Shares are owned by the Shareholder, of record and beneficially, free and clear of all charges, pledges, liens, equities, hypothecations, mortgages, security interests, rights of first refusal, or other encumbrances of any nature whatsoever, and that, other than as set forth in this Agreement, the Shareholder has made no agreement or commitment relative to the purchase, sale, pledge, transfer or other disposition of any of the Series A Preferred Shares.

4. Indemnification by Shareholder. The Shareholder shall indemnify, defend and hold harmless the Company and its affiliates, officers, directors, agents and employees (each, a "Company Indemnified Party") from and against any and all liabilities imposed by any governmental or tax authority of any applicable jurisdiction on any Company Indemnified Party with respect to any and all tax liabilities or obligations of any amount or nature of the Shareholder resulting or arising out of the transactions contemplated by this Agreement.

5. Miscellaneous.

5.1 Governing Law and Dispute Resolution.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to the conflicts of laws principles thereof.

(b) 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 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 is submitted in accordance with the Arbitration Rules. There shall be one (1) arbitrator, selected in accordance with the Arbitration Rules. The award of the arbitrator shall be final, conclusive and binding on the Parties. Judgment may be entered on the arbitrator's award in any court having competent jurisdiction. The Parties 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.

5.2 Entire Agreement; Amendment. This Agreement represents the entire agreement between the Parties with respect to the transactions contemplated hereby and supersedes all prior agreements, understandings or representations, whether oral or written, and may be waived or modified only by a subsequent written agreement signed by the Parties hereto.

5.3 No Assignment. This Agreement shall be binding upon and inure to the benefit of each of the Parties hereto and their respective successors and assigns. No Party may transfer or assign its rights or obligations under this Agreement without the prior written consent of the other Party and any purported transfer or assignment without such consent shall be void *ab initio* and without effect.

5.4 Notices. Notices and other communications to be given by any Party pursuant to the terms of this Agreement shall be given in writing to the respective Parties to the following addresses:

if to the Company:

c/o Sohu.com Inc.
Level 12, Sohu.com Internet Plaza
No. 1 Unit Zhongguancun East Road, Haidian District
Beijing 100084, People's Republic of China
Attention: Xiaochuan Wang
Email: xiaochuanwang@sohu-inc.com

with a copy to:

Goulston & Storrs, P.C.
400 Atlantic Avenue
Boston, MA 02110, U.S.A
Attention: Timothy B. Bancroft
Facsimile: +1 617 574 7568
Email: tbancroft@goulstonstorrs.com

if to the Shareholder:

Room 3501, K. Wah Centre
1010 Huaihai Middle Road
Shanghai 200031, China
Attention: Xin Huang
Facsimile: +86-21-3127-1750
Email: huangxin@yfc.cn

or to such other address or email address as the Party to whom notice is given may have previously furnished to the other in writing as provided herein. Any notice involving non-performance or termination shall be sent by hand delivery or recognized overnight courier. All other notices may also be sent by email, confirmed by mail. All notices shall be deemed to have been given when received, if hand delivered; when transmitted, if transmitted by email; upon confirmation of delivery, if sent by recognized overnight courier; and upon receipt if mailed.

5.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

5.6 Severability. In the event any provision of this Agreement is declared by a court of competent jurisdiction to be void or unenforceable or become unlawful in its operation, such provision shall not affect the rights and duties of the Parties with regard to the remaining provisions of this Agreement which shall continue as binding.

5.7 Further Actions. If at any time after the date of this Agreement any further actions are necessary, proper, advisable or convenient to carry out the purposes of this Agreement, then, as soon as is reasonably practicable, each of the Parties shall cooperate with one another to effectuate such actions at the requesting Party's expense.

5.8 Specific Performance. Each of the Parties agrees that monetary damages will not be adequate compensation for breach of such Party's obligations contained in this Agreement and further agrees that each other Party shall be entitled to specific performance of this Agreement. Each Party irrevocably waives, and agrees not to assert in any action for specific performance of this Agreement, the defense that a remedy at law would be adequate.

[Signature Page Follows]

IN WITNESS whereof, the Parties have duly executed this Repurchase Option Agreement the day and year first above written.

THE COMPANY:

SOGOU INC.

By _____
Name:
Title:

THE SHAREHOLDER:

CHINA WEB SEARCH (HK) LIMITED

By _____
Name:
Title

EXHIBIT A

FORM OF INSTRUMENT OF TRANSFER AND SURRENDER

[Name of Shareholder] (the “**Transferor**”) does hereby surrender, assign and transfer [] Series A Preferred Shares, par value of US\$0.001 per share, of Sogou Inc. (the “**Transferee**”), standing in the Transferor’s name, unto the Transferee in accordance with section 37B of the Companies Law (2011 Revision).

This instrument may be executed in any number of counterparts and by the parties to it on separate counterparts, each of which when so executed and delivered shall be an original, but all the counterparts shall together constitute one and the same instrument.

Dated: , 2014

Signed for and on behalf of)
CHINA WEB SEARCH (HK) LIMITED, as Transferor)

in the presence of:)

Name:
Title:

Signed for and on behalf of)
Sogou Inc., as Transferee)

in the presence of:)

Name:
Title:

REPURCHASE OPTION AGREEMENT

This Repurchase Option Agreement (this "Agreement") is made and entered into as of September 16, 2013 by and between Sogou Inc., a Cayman Islands company (the "Company"), and Photon Group Limited, a British Virgin Islands company (the "Shareholder"). The Company and the Shareholder are sometimes referred to herein individually as a "Party," and together as the "Parties."

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Repurchase Option.

1.1 Grant of Option. The Shareholder hereby grants to the Company the option (the "Repurchase Option") exercisable by the Company at its sole election by written notice to the Shareholder delivered at any time on or after March 16, 2014, to repurchase from the Shareholder 6,400,000 Series A Preferred Shares ("Series A Preferred Shares"), of the Company held by the Shareholder for a price of \$3.28 per Series A Preferred Share (or \$21,015,329 in the aggregate) (the "Repurchase Price") payable by wire transfer of immediately available funds to the Shareholder's Designated Bank Account (as defined below). Following such exercise and payment and the removal of the Shareholder from the Company's register of members in respect of the purchased Series A Preferred Shares, the Shareholder will have no further right, title, or interest in or to the Series A Preferred Shares so repurchased. The Shareholder acknowledges and agrees that the Company's payment of the Repurchase Price will be in lieu of any accruing or other dividend to which the Shareholder might be entitled under the Company's Memorandum and Articles of Association, as then in effect, or otherwise up to and including the date that the Shareholder ceases to be a member of the Company.

1.2 No Action Required. For the avoidance of doubt, the Company's exercise of the Repurchase Option shall require no further action by the Shareholder.

1.3 Instrument of Transfer. Prior to or simultaneously with the execution and delivery of this Agreement, the Shareholder has (i) executed and delivered to the Company an instrument of transfer and surrender (the "Instrument of Transfer"), in a form substantially similar to the form attached hereto as Exhibit A, and (ii) designated in writing to the Company a bank account (the "Designated Bank Account") to receive payment of the Repurchase Price upon the Company's exercise of the Repurchase Option. The Shareholder acknowledges and agrees that the Company will hold the executed Instrument of Transfer in order to enable the Company to cause all right, title, and interest in and to the Series A Preferred Shares to be transferred to the Company upon the Company's exercise of the Repurchase Option and payment of the Repurchase Price.

2. Irrevocable Proxy and Power of Attorney.

2.1 Voting. The Shareholder irrevocably agrees that from the date hereof until the earlier of the effective date of the Company's repurchase of the Shareholder's Series A Preferred Shares pursuant to the Repurchase Option, it shall abstain from voting at any meeting of the shareholders of the Company, or any adjournment thereof, however called, and in any action by written consent of the shareholders of the Company. The Shareholder hereby acknowledges and confirms that such agreement to abstain is coupled with an interest and may under no circumstances be revoked by the Shareholder.

3. Representations and Warranties of the Shareholder.

3.1 No Conflicts. The Shareholder hereby represents and warrants to the Company that the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not conflict with or result in any breach of any terms, conditions or provisions of or constitute a default under any agreement, commitment or other arrangement by which the Shareholder or any of the Shareholder's assets is bound or any decree, judgment, order, statute, rule or regulation applicable to the Shareholder.

3.2 Title to Series A Preferred Shares. The Shareholder hereby represents, warrants and covenants that the Shareholder is the sole owner of the Series A Preferred Shares and that the Series A Preferred Shares are owned by the Shareholder free and clear of all charges, pledges, liens, equities, hypothecations, mortgages, security interests, rights of first refusal, or other encumbrances of any nature whatsoever.

4. Miscellaneous.

4.1 Governing Law and Dispute Resolution.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to the conflicts of laws principles thereof.

(b) 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 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 is submitted in accordance with the Arbitration Rules. There shall be one (1) arbitrator, selected in accordance with the Arbitration Rules. The award of the arbitrator shall be final, conclusive and binding on the Parties. Judgment may be entered on the arbitrator's award in any court having competent jurisdiction. The Parties 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.

4.2 Entire Agreement; Amendment. This Agreement represents the entire agreement between the Parties with respect to the transactions contemplated hereby and supersedes all prior agreements, understandings or representations, whether oral or written, and may be waived or modified only by a subsequent written agreement signed by the Parties hereto.

4.3 No Assignment. This Agreement shall be binding upon and inure to the benefit of each of the Parties hereto and their respective successors and assigns. No Party may transfer or assign its rights or obligations under this Agreement without the prior written consent of the other Party and any purported transfer or assignment without such consent shall be void *ab initio* and without effect.

4.4 Notices. Notices and other communications to be given by any Party pursuant to the terms of this Agreement shall be given in writing to the respective Parties to the following addresses:

if to the Company:

Floor 4, Willow House
Cricket Square, P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands
Attention: Xiaochuan Wang
Email: xiaochuanwang@sohu-inc.com

with a copy to:

Goulston & Storrs, P.C.
400 Atlantic Avenue
Boston, MA 02110, U.S.A
Attention: Timothy B. Bancroft
Facsimile: +1 617 574 7568
Email: tbancroft@goulstonstorrs.com

if to the Shareholder:

Floor 4, Willow House
Cricket Square, P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands
Attn: Charles Zhang
Email: liwei@sohu-inc.com

or to such other address or email address as the Party to whom notice is given may have previously furnished to the other in writing as provided herein. Any notice involving non-performance or termination shall be sent by hand delivery or recognized overnight courier. All other notices may also be sent by email, confirmed by mail. All notices shall be deemed to have been given when received, if hand delivered; when transmitted, if transmitted by email; upon confirmation of delivery, if sent by recognized overnight courier; and upon receipt if mailed.

4.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

4.6 Severability. In the event any provision of this Agreement is declared by a court of competent jurisdiction to be void or unenforceable or become unlawful in its operation, such provision shall not affect the rights and duties of the Parties with regard to the remaining provisions of this Agreement which shall continue as binding.

4.7 Further Actions. If at any time after the date of this Agreement any further actions are necessary, proper, advisable or convenient to carry out the purposes of this Agreement, then, as soon as is reasonably practicable, each of the Parties shall cooperate with one another to effectuate such actions at the requesting Party's expense.

4.8 Specific Performance. The Shareholder agrees that monetary damages will not be adequate compensation for breach of the Shareholder's obligations contained in this Agreement and further agrees that the Company shall be entitled to specific performance of this Agreement. The Shareholder irrevocably waives, and agrees not to assert in any action for specific performance of this Agreement, the defense that a remedy at law would be adequate.

[Signature Page Follows]

IN WITNESS whereof, the Parties have duly executed this Repurchase Option Agreement the day and year first above written.

THE COMPANY:

SOGOU INC.

By _____
Name:
Title:

THE SHAREHOLDER:

PHOTON GROUP LIMITED

By _____
Name:
Title

EXHIBIT A

FORM OF INSTRUMENT OF TRANSFER AND SURRENDER

[Name of Shareholder] (the “**Transferor**”) does hereby surrender, assign and transfer [] Series A Preferred Shares, par value of US\$0.001 per share, of Sogou Inc. (the “**Transferee**”), standing in the Transferor’s name, unto the Transferee in accordance with section 37B of the Companies Law (2011 Revision).

This instrument may be executed in any number of counterparts and by the parties to it on separate counterparts, each of which when so executed and delivered shall be an original, but all the counterparts shall together constitute one and the same instrument.

Dated: , 2014

Signed for and on behalf of)
PHOTON GROUP LIMITED, as Transferor)
in the presence of:)

Name:
Title:

Signed for and on behalf of)
Sogou Inc., as Transferee)
in the presence of:)

Name:
Title:

THIS EQUITY TRANSFER CONTRACT (this "Contract") is made on the 16th day of September, 2013

BETWEEN:

- (1) SHENZHEN TENCENT COMPUTER SYSTEM COMPANY LIMITED (腾讯计算机系统有限公司), a company organized and existing under the laws of the People's Republic of China (the "PRC"), with its registered address at Floors 5 - 10, Fiyta Building, Gao Xin Nan Yi Street, High-tech Park, Nanshan District, Shenzhen, the PRC (the "Seller"); and
- (2) BEIJING SOGOU INFORMATION SERVICES CO., LTD. (搜狗信息服务(北京)有限公司), a company organized and existing under the laws of the PRC, with its registered address at Room 02, 9th Floor, Sohu.com Media Plaza, Building No. 9, No. 1 Zhongguancun Road East, Haidian District, Beijing (the "Purchaser").

The Seller and the Purchaser are referred to collectively as the "Parties" and each individually as a "Party".

RECITALS:

- (A) Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. (the "Company") is a company incorporated under the laws of the PRC, with its registered address at 16/F, Tencent Building, Kejizhongyi Avenue, Yue Hai Community, Nanshan District, Shenzhen, the PRC.
- (B) The Seller is the sole investor and shareholder of the Company.
- (C) The Seller wishes to transfer and the Purchaser wishes to acquire all of Seller's equity interest in the registered capital of the Company (the "Equity Interest") on and subject to the terms and conditions set forth below:

NOW THEREFORE, the Parties agree as follows:

**SECTION 1
INTERPRETATION**

1.1 Definitions. In this Contract, unless the context otherwise requires, the following words and expressions have the following meanings:

"Affiliate" of a Person (the "Subject Person") means a Person that directly or indirectly through one or more intermediaries Controls or is Controlled by or is under common Control with the Subject Person.

"Business Collaboration Agreements" mean collectively (a) the Business Resource Sharing Agreement, (b) the Mobile Browser Cooperation Agreement and (c) the Video Cooperation Agreement, each made between an Affiliate of Seller, an Affiliate of the Company and other parties named therein entered into on the date hereof, as amended from time to time.

“**Confidential Information**” means, (a) any information concerning the organization, business, technology, intellectual property, safety records, investment, finance, transactions or other affairs of the Company, any Party or any of their respective directors, officers or employees (whether conveyed in written, oral or in any other form and whether such information is furnished before, on or after the date of this Contract); (b) the terms of this Contract or any of the other ancillary documents in connection with the Transaction contemplated hereunder, or the identities of the Company, the Parties and their respective Affiliates; and (c) any other information or materials prepared by a Party or its Representatives (as defined below) that contains or otherwise reflects, or is generated or derived from, information set forth in (a). “Confidential Information” does not include information: (i) that is or becomes generally available to the public other than as a result of breach of this Contract, (ii) that was in the possession of the receiving Party prior to the disclosure, if to the knowledge of the receiving Party, the source of the information does not owe a confidentiality obligation to the concerned Party, or (iii) that is independently developed by a Party or its Representatives without reference to or reliance on any Confidential Information.

“**Control**” of a Person means (a) ownership of more than 50% of the shares in issue or other equity interests or registered capital of such Person, or (b) the power to direct the management or policies of such Person, whether through the ownership of more than 50% of the voting power of such Person, through the power to appoint a majority of the members of the board of directors or similar governing body of such Person, through contractual arrangements or otherwise.

“**Person**” means any natural person, firm, company, governmental authority, joint venture, partnership, association or other entity (whether or not having separate legal personality).

“**Transaction**” means the transactions contemplated under this Contract and all related transactions and matters provided for or contemplated in this Contract.

SECTION 2 EQUITY INTEREST TRANSFER

Upon the terms and subject to the conditions set forth in this Contract, the Seller hereby agrees to transfer the Equity Interest to the Purchaser (the “**Equity Interest Transfer**”) for consideration of RMB20 million (the “**Purchase Price**”). The Purchaser shall pay the Purchase Price to the Seller in accordance with Section 3.3.

SECTION 3 COMPLETION AND POST-COMPLETION REGISTRATION

3.1 The completion of the Equity Interest Transfer (the “**Completion**”) shall be deemed to occur on the date of this Contract (the “**Completion Date**”).

- 3.2 On the date hereof and at the Completion:
- (a) the Seller shall deliver to the Purchaser:
 - (i) a copy of the shareholders' resolutions of the Seller deciding or approving (1) the Seller entering into this Contract, (2) the Equity Interest Transfer, (3) the amendment of the Articles of Association of the Company substantially in the form set forth in Exhibit A (the "Amended Articles") and (4) the appointment of new directors of the board and supervisor of the Company;
 - (ii) a copy of the resolution of the board of directors of the Seller and the Company deciding or approving (1) the Equity Interest Transfer, (2) the Amended Articles and (3) the appointment of new directors and supervisor of the Company, as well as change of the legal representative of the Company; and
 - (iii) a copy of a duly signed application form for change of registration with the local company registration authority ("AIC").
 - (b) the Purchaser shall:
 - deliver to the Seller a copy of all its shareholder and board resolutions required to effect the Purchaser's obligations under this Contract.
- 3.3 As soon as practicable after the Completion Date, the Parties shall cause the Company to (a) change its registration with AIC to reflect the Equity Interest Transfer and the Amended Articles, (b) obtain an updated business license and AIC registration record of the Company evidencing Purchaser as the new owner of the Equity Interest, and (c) register new directors and officers with AIC, with each in form and substance reasonably satisfactory to Purchaser. The Parties shall submit all necessary application documents to the AIC within five (5) Business Days after the Completion Date.
- 3.4 Upon acceptance by AIC of the application for registration of Equity Interest Transfer, the Purchaser shall pay the Purchase Price as soon as possible in immediately available cleared funds and in RMB to a bank account designated in writing by the Seller.

SECTION 4 REPRESENTATIONS AND WARRANTIES

- 4.1 Mutual Warranties. Each Party hereby represents and warrants to the other Party as of the Completion Date as follows:
- (a) It is a company duly incorporated, validly existing and in good standing under the laws of the PRC. It has the full power, authority and legal right to own, lease and operate its properties, and to carry on its business as now being conducted.
 - (b) It has the full power, capacity and authority to enter into, execute and deliver this Contract and its execution and delivery of this Contract and its performance of the Transaction have been duly authorized by all necessary corporate or other action.

- (c) Assuming the due authorization, execution and delivery by the other Party, this Contract constitutes the legal, valid and binding obligation of such Party, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.
- 4.2 Representations and Warranties of the Seller. The Seller hereby represents and warrants to the Purchaser as of the Completion Date in the terms set forth in Schedule 2 (the "Warranties").
- 4.3 Date of Warranty. Each Warranty is made on the date of this Contract, except if specifically provided in the Disclosure Schedule.
- 4.4 No Implied or Other Warranties.
- (a) The Parties agree and acknowledge that other than the Warranties made by the Seller pursuant to Section 4.1 and Section 4.2 above (and Schedule 2 referenced therein); the Seller is not making any representations or warranties with respect to the matters contemplated by this Contract.
- (b) Without limiting the foregoing, the Purchaser acknowledges and agrees that the Warranties made by the Seller pursuant to Section 4.1 and Section 4.2 above (and Schedule 2 referenced therein) are the sole representations or warranties made with respect to the Company and/or its operations, financial condition, business, assets, capital structure, liabilities and any other matter impacting the Company, and the Purchaser acknowledges and agrees that it is relying solely on such representations and warranties in deciding to enter into this Contract, and expressly waives any rights or remedies with respect to any statement, information, or data made or provided to, or obtained by the Purchaser other than such sole representations and warranties.
- (c) The Parties agree and acknowledge that other than the Warranties made by the Purchaser pursuant to Section 4.1 above, the Purchaser is not making any representations or warranties with respect to the matters contemplated by this Contract, and the Seller expressly waives any rights or remedies with respect to any statement, information, or data made or provided to, or obtained by the Seller other than such sole representations and warranties.
- 4.5 Specific Disclosure. Disclosure of any matter in a Disclosure Schedule corresponding to a particular Warranty shall, should the existence of such matter or its contents be relevant, as reasonably apparent on its face, to any other Warranty, be deemed to be disclosed for that other Warranty whether or not an explicit cross reference appears.
- 4.6 Knowledge of Claims. The Warranties are given subject to the matters in respect of any Warranty (a) disclosed in the Disclosure Schedule (including the schedules and appendices thereof) or (b) otherwise "Disclosed", as such term is defined in Schedule 2 herein.

4.7 Survival. The Warranties shall survive for a period of 18 months from the date hereof (“Survival Period”).

SECTION 5 CONFIDENTIALITY AND RESTRICTIONS ON PUBLICITY

- 5.1 General Obligation. Each Party undertakes to the other Parties that it shall not reveal, and that it shall procure that its directors, equity interest holders, officers, employees, agents or Affiliates (collectively, the “Representatives”) do not reveal, to any third party any Confidential Information without the prior written consent of the Company or the concerned Party, as the case may be, or use any Confidential Information in such manner that is detrimental to the Company or the concerned Party, as the case may be.
- 5.2 Exceptions. The provisions of Section 5.1 shall not apply to:
- (a) disclosure of Confidential Information that is or becomes generally available to the public other than as a result of disclosure by or at the direction of a Party or any of the Representatives in violation of this Contract;
 - (b) disclosure by a Party to a Representative or an Affiliate so long as such disclosure is necessary in order for that Party to perform its obligations, or exercise its rights, under this Contract, provided that such Representative or an Affiliate (i) is under a similar obligation of confidentiality or (ii) is otherwise under a binding professional obligation of confidentiality; or
 - (c) disclosure, after giving prior notice to the other Parties to the extent practicable under the circumstances and subject to any practicable arrangements to protect confidentiality, to the extent required under the rules of any stock exchange on which the shares of a Party or its parent company are listed or by applicable laws or judicial or regulatory process or in connection with any judicial process regarding any legal action, suit or proceeding arising out of or relating to this Contract.
- 5.3 Publicity. No Party shall make, and each Party shall cause its respective officers, employees, agents and Affiliates and the respective officers, employees or agents of each such Affiliate to not make, any public announcement or comment regarding this Contract or the transactions contemplated hereby without first consulting with and obtaining the written consent of the other Parties, except to the extent that such announcement or comment is required by law or any regulations governing stock exchanges, pursuant to a court order, by any securities exchange on which securities of such Party or an Affiliate thereof are listed or by any governmental or regulatory body.

SECTION 6 EXPENSES

- 6.1 Fees and Expenses. All Parties shall bear their own respective expenses incurred in connection with the preparation, execution, negotiation and performance of this Contract and the transactions contemplated hereby and thereby, including all fees and expenses of agents, representatives, counsel and accountants.

**SECTION 7
INDEMNIFICATION**

- 7.1 **Indemnification.** The Seller shall indemnify, defend and hold harmless the Purchaser and its Affiliates, officers, directors, agents and employees (each, a "**Purchaser Indemnified Party**") from and against any and all losses, damages, liabilities, claims, proceedings, taxes, costs and expenses (including the fees, disbursements and other charges of counsel reasonably incurred by the Purchaser Indemnified Party in any action between the Seller and the Purchaser Indemnified Party or between the Purchaser Indemnified Party and any third party, in connection with any investigation or evaluation of a claim or otherwise) (collectively, "**Losses**") resulting from or arising out of any breach by the Seller of any Warranty or any other covenant or agreement in this Contract. The Purchaser shall indemnify, defend and hold harmless the Seller and its Affiliates, officers, directors, agents and employees (each, a "**Seller Indemnified Party**") from and against any and all Losses incurred by the Seller Indemnified Party resulting from or arising out of any breach by the Purchaser of any Warranty or any other covenant or agreement in this Contract. Each of the Seller Indemnified Party and the Purchaser Indemnified Party shall be referred to as an "**Indemnified Party**".
- 7.2 **Breach of Warranties.** The amount of any payment to any Indemnified Party pursuant to Section 7.1 shall be sufficient to make such Indemnified Party whole for any Losses incurred by it resulting from a breach of a Warranty by the relevant indemnifying Party (the "**Indemnifying Party**"). In connection with the indemnification obligation of the relevant Indemnifying Party as set forth above, the Indemnifying Party shall, upon presentation of appropriate invoices containing reasonable detail, reimburse each Indemnified Party for all such expenses as they are incurred by such Indemnified Party.
- 7.3 **Limitation on Liability.** Notwithstanding anything herein:
- (a) In no event shall any Indemnifying Party be liable for any indirect losses or remote, speculative, exemplary, consequential, or punitive damages or damages based on any type of multiple of the Indemnified Party.
 - (b) The Seller shall not be liable in respect of any claim for any Losses (or a series of claims arising from substantially similar facts or circumstances) unless and until the amount that would otherwise be recoverable from the Seller (but for this Section 7.3(b)) in respect of any such claim or series of claims arising from substantially similar facts or circumstances in aggregate exceeds US\$100,000.
 - (c) The Seller shall not be liable in respect of a claim for any Losses unless and until the amount that would be otherwise recoverable from the Seller (but for this Section 7.3(c)) in respect of such claim, when aggregated with any other amount or amounts recoverable from the Seller in respect of other claims (excluding any amounts in respect of a claim for which the Seller has no liability because of Section 7.3(b)), exceeds US\$1,000,000. In such an event, the Seller shall be liable for the entire aggregate amount of the Losses and not just the excess.

- (d) For the avoidance of doubt and notwithstanding any other provision in this Contract, in no circumstance shall the aggregate liability of the Seller in respect of all Losses resulting from or arising out of any breach by the Seller of (i) any Warranties set forth in Section 4.1, combined with any breach by the Seller of any Warranties set forth in Schedule 2 exceed 100% of the Purchase Price, and (ii) any Warranties set forth in Schedule 2 exceed 20% of the Purchase Price.
 - (e) For the avoidance of doubt and notwithstanding any other provision in this Contract, in no circumstance shall the aggregate liability of the Purchaser in respect of all Losses resulting from or arising out of any breach by the Purchaser of any Warranties set forth in Section 4.1 exceed 100% of the Purchase Price.
 - (f) Each Indemnified Party shall procure and ensure that all reasonable steps are taken and all reasonable assistance is given to avoid or mitigate any Losses which in the absence of mitigation might give rise to a liability in respect of any claim under this Contract.
 - (g) For the avoidance of doubt, any claim for a breach of a Warranty shall be qualified by and subject to any relevant disclosure made in the Disclosure Schedule or otherwise “Disclosed”, as such term is defined in Schedule 2 to against on such Warranties.
 - (h) In determining Losses subject to indemnification hereunder, the amount of such Losses shall be calculated taking into account and giving credit against the Losses any insurance proceeds (or other contribution or payment from any third party) actually received by an Indemnified Party (net of any cost and expenses reasonably incurred in receiving such proceeds, contribution or payment and any increase in premium), and the Indemnified Party shall use commercially reasonable efforts to pursue and collect any such insurance proceeds, contribution or other payments. The foregoing sentence shall not oblige any Indemnified Party to procure any insurance policy or to take action which would result in an increase in premiums, a change in coverage or any other adverse change under any insurance policy.
 - (i) No Indemnified Party will be entitled to indemnification with respect to any claim made pursuant to this Section 7 for any Losses unless written notice of a possible claim for indemnification with respect to such Losses is given by the Party seeking indemnification to the other Party prior to the expiration of the Survival Period.
- 7.4 Remedies. The indemnity provision set out in this Section 7 shall be the exclusive remedy for any breach of this Contract, or in connection with the matters contemplated hereby or thereby, except (a) for claims of fraud and (b) that the Parties shall be entitled to specific performance under this Contract. The Parties agree that monetary damages may not be adequate compensation for any loss incurred by a Party by reason of any breach of obligations contained in this Contract by the other Parties and each Party hereby agrees to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

SECTION 8
GENERAL PROVISIONS

- 8.1 Amendment. This Contract may not be amended, modified or supplemented except by a written instrument executed by both Parties.
- 8.2 Waiver. No waiver of any provision of this Contract shall be effective unless set forth in a written instrument signed by the Party waiving such provision. No failure or delay by a Party in exercising any right, power or remedy under this Contract shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by a Party of any breach by the other Party of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.
- 8.3 Entire Agreement. This Contract, represents the entire understanding and constitutes the whole agreement among the Parties relating to the subject matter hereof and supersedes any prior agreements or understandings relating to such subject matter.
- 8.4 Severability. Each and every obligation under this Contract shall be treated as a separate obligation and shall be severally enforceable as such and in the event of any obligation or obligations being or becoming unenforceable in whole or in part. To the extent that any provision or provisions of this Contract are unenforceable they shall be deemed to be deleted from this Contract, and any such deletion shall not affect the enforceability of this Contract as remain not so deleted.
- 8.5 Discrepancy. For governmental filing purposes, the Parties have also entered into a short form equity transfer agreement in Chinese as of the date of this Contract. In the event of any conflict or inconsistency between such short form equity transfer agreement and this Contract, this Contract shall prevail.
- 8.6 Counterparts. This Contract may be executed in any number of counterparts and by the Parties in separate counterparts, including counterparts transmitted by facsimile or by e-mails, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Except as otherwise specified, this Contract shall become legally binding at the time of execution of the last such counterpart and shall have effect from the date first above written.
- 8.7 Assignment. The rights of each Party under this Contract shall not be assignable by such Party without the written consent of the other Party, which consent shall not be unreasonably withheld, delayed or conditioned.
- 8.8 Notice Addresses and Method of Delivery. All notices, requests, demands, consents and other communications (“Notices”) required to be given by each Party to the other Party shall be in writing and delivered by hand delivery or courier; prepaid registered letter sent by first class mail (express courier if to an address in a country other than the country in which the sender is situated), return receipt request or facsimile to the applicable Party at the address or facsimile number stated below:

if to Seller:

Attn: Corporate Counsel, Legal Department
Address: 29/F., Three Pacific Place, No.1
Queen’s Road East, Wanchai, Hong Kong
Telephone: +852 2179 5122 Ext: 68805
Fax No.: +852 2520 1148
E-mail: richardpu@tencent.com.hk
Facsimile: +86 755 8601 3090 Ext: 82238

with a copy to:

Tencent Building,
Kejizhongyi Avenue,
Hi-tech Park,
Nanshan District,
Shenzhen, 518057, P.R. China
Attn: General Counsel
Facsimile: +86 755 8601 3090 Ext: 82238

If to Purchaser:

Attention: Carol Yu
Add: Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road,
Haidian District,
Beijing 100190, China
Facsimile No.: +86 10 6272 6988
Email: carol@sohu-inc.com

with a copy to:

Goulston & Storrs PC
400 Atlantic Avenue
Boston, MA 02110
Attention: Timothy B. Bancroft
Facsimile No.: +1-617-574-7568

or, as to each Party, at such other address or number as shall be designated by such Party in a notice to the other Party containing the new information in the same format as the information set out above and complying as to delivery with the terms of this Section.

8.9 Time of Delivery. Any Notice delivered:

- (a) by hand delivery shall be deemed to have been delivered on the date of actual delivery;
- (b) by email shall be deemed to have been delivered upon confirmation of delivery;
- (c) by prepaid express courier shall be deemed to have been delivered upon delivery by the courier; and
- (d) by facsimile shall be deemed to have been delivered on the day the transmission is sent (as long as the sender has a confirmation report specifying a facsimile, a facsimile number of the recipient, the number of pages sent and the date of the transmission).

8.10 Proof of Delivery. In proving delivery of any Notice it shall be sufficient:

- (a) in the case of delivery by hand delivery or courier, to prove that the Notice was properly addressed and delivered;
- (b) in the case of delivery by email, to prove that the transmission was confirmed as sent by the originating email account to the email address of the recipient, on the date specified; and
- (c) in the case of delivery by facsimile transmission, to prove that the transmission was confirmed as sent by the originating machine to the facsimile number of the recipient, on the date specified.

**SECTION 9
GOVERNING LAW AND DISPUTE RESOLUTION**

- 9.1 Governing Law. The execution, validity and performance of and resolution of disputes under this Contract shall be governed by the officially published and publicly available laws of the PRC. When the officially published and publicly available laws of the PRC do not cover a certain matter, international legal principles and practices shall apply.
- 9.2 Dispute Resolution. Any Dispute shall be first resolved through friendly consultation among the Parties. If such consultation fails, each Party may submit the Dispute to Shanghai Arbitration Committee in Shanghai, the PRC.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the Parties have executed this Contract as of the date first written above.

Shenzhen Tencent Computer Systems Co., Ltd.

By: _____
Name:
Title:

Beijing Sogou Information Services Co., Ltd.

By: _____
Name:
Title:

SCHEDULE 1

DETAILS OF THE COMPANY

Chinese Name:	深圳市世纪光速信息技术有限公司
English Name:	Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.
Registration No:	440301107892067
Registered with:	Shenzhen Municipal Market Supervision and Administration Bureau
License No.:	N/A
Enterprise Identity:	Limited liability company (wholly owned by another legal person)
Date of Incorporation:	September 4, 2013
Place of Incorporation:	PRC
Registered Office:	Floors 5 - 10, Fiyta Building, Gao Xin Nan Yi St, High-tech Park, Nanshan District, Shenzhen, the PRC
Registered Capital:	RMB20,000,000
Paid-in Capital:	RMB20,000,000
Shareholders (Promoter):	Shenzhen Tencent Computer System Co., Ltd.
Term of Operation:	20 years
Scope of Business:	Design of computer software and hardware, development and sale of technologies, database and computer network technology service, import and export of goods and technologies, and engaging in advertising business
Legal Representative:	YAO Xing
Outstanding Charges:	NIL
Subsidiaries (and percentage of shareholding):	NIL

SCHEDULE 2

REPRESENTATIONS AND WARRANTIES OF THE SELLER

Part A - Definitions

In this Schedule 2, capitalized terms not otherwise defined have the meanings set forth in this Contract, and the following terms have the meanings specified:

“Accounts” means the unaudited consolidated balance sheet of the Company as of the date of the Closing.

“Accounts Receivable” means all accounts or notes receivable held by the Company and any security, claim, remedy or other right related to any of the foregoing.

“Assets” means all assets, rights and privileges of any nature and all goodwill associated therewith, including without limitation all rights in respect of Contracts, all Intellectual Property, Equipment, but excluding rights in respect of real property.

“Asset Contribution and Licensing Agreement” means an Asset Contribution and Licensing Agreement entered into by Seller and the Company on the date hereof, as amended from time to time.

“Contracts” means all contracts, agreements, licenses, engagements, leases, financial instruments, purchase orders, commitments and other contractual arrangements, which are currently subsisting and effective and which have not been terminated or completed.

“Disclosed” means, in respect of any Warranty, disclosed in: (i) the Disclosure Schedule (including the schedules and appendices thereof), (ii) the public filings on the website of HKEx news, the disclosure site of the Stock Exchange of Hong Kong Limited, or (iii) all matters disclosed on the investor relations section of Tencent Holdings Limited.

“Equipment” means all the plant and machinery, tools and equipment, vehicles and office furniture, computer equipment and other tangible assets.

“Government Approval” means any approval, authorization, release, order, or consent required to be obtained from, or any registration, qualification, designation, declaration, filing, notice, statement or other communication required to be filed with or delivered to, any Governmental Authority or any other Person, or any waiver of any of the foregoing.

“Government Entity” means any government (foreign or domestic) or any department, agency or instrumentality thereof, including any entity or enterprise owned or Controlled by a government, or a public international organization.

“Governmental Order” means any applicable order, ruling, decision, verdict, decree, writ, subpoena, mandate, precept, command, directive, consent, approval, award, judgment, injunction or other similar determination or finding by, before or under the supervision of any Governmental Authority.

“Intellectual Property” means all letters patent, trademarks, service marks, registered designs, domain names and utility models, copyrights, inventions, Know-how, brand names, database rights and business names and any similar rights situated in any country and the benefit (subject to the burden) of any of the foregoing (in each case whether registered or unregistered and including applications for the grant of any of the foregoing and the right to apply for any of the foregoing in any part of the world).

“Know-how” means all know-how, lists of customers or suppliers, trade secrets, technical processes or other confidential information relating thereto.

“Liabilities” means all indebtedness and other liabilities of any nature whatsoever, actual or contingent, and whether or not of a nature required to be disclosed in the Accounts.

“Material Adverse Effect” affecting a person, means any effect that is materially adverse to the business, conditions (financial or otherwise), prospects, properties or assets of such person.

“Material Contracts” means (1) contracts between the Company or its Affiliates and the largest search traffic supplier of the Tencent “Soso” business and (2) contracts between the Company or its Affiliates and the top 5 nationwide online advertising sales agents of the Tencent “Soso” business.

“Newco Assets” means the assets owned by the Company on the date hereof.

“Principal Business” means the business of the Company, being an investment holding company.

“Pro Forma Financial Information” means the assets and liabilities of the Company as of the Pro Forma Accounts Date, and the pro-forma statements of income for the six months ended 30 June 2013 and year ended 31 December 2012

“Pro Forma Accounts Date” means 31 August 2013.

“Proceedings” means any claim, suit, action, arbitration, mediation, investigation, legal action, litigation, prosecution or other legal or administrative proceeding;

“Related Party” means (a) any shareholder of the Seller or the Company or any Subsidiary thereof, (b) any director of the Seller or the Company or any Subsidiary of the Seller or the Company, (c) any officer of the Seller or the Company or any Subsidiary of the Seller or the Company, (d) any Relative of a shareholder, director or officer of the Seller or the Company or any Subsidiary of the Seller or the Company, (e) any Person in which any shareholder or any director of any the Seller or the Company or any Subsidiary of the Seller or the Company has any interest, other than a passive shareholding of less than 5% in a publicly listed company, and (f) any other Affiliate of the Seller or the Company or any Subsidiary of the Seller or the Company.

“Subsidiary” means, with respect to any specified Person, any other Person Controlled by the specified Person, directly or indirectly, whether through contractual arrangements or through ownership of equity securities, voting power or registered capital. For the avoidance of the doubt, a variable interest entity Controlled by another entity shall be deemed a Subsidiary of that other entity.

“Tax” means any and all applicable tax and taxes (including any value added tax or sales tax, business tax, income tax, stamp or other duty, levy, impost, charge, fee, deduction, or withholding of any nature) imposed, levied, collected or assessed by any Government Entity in the PRC or elsewhere and includes any penalties for late or non-payment of such tax or taxes.

“Tax Return” means all China returns, declarations, claims for refunds, forms, statements, reports, schedules, information returns or similar statements or documents, and any amendments thereof (including any related or supporting information or schedule attached thereto) required to be filed (including electronically) with any Taxing Authority in connection with the determination, assessment or collection of any Tax or Taxes.

“Taxing Authority” means any Government Entity responsible for or having jurisdiction over the assessment, determination, collection or other imposition of Taxes.

“Warrantor(s)’ Knowledge” means the actual knowledge of Ms. Sheila Liang, Assistant General Counsel of the parent company of the Seller, after reasonable enquiry, as of the date of this Contract.

Part 2 - Warranties and Representations

Corporate Existence and Due Authorization

1. As of the date of its incorporation and as of the Completion Date, the Seller is the legal and beneficial owner of 100% of the total issued and outstanding registered capital of the Company on a fully diluted basis. The Company has been duly incorporated, is validly existing and is in good standing under applicable law, its registered capital has been fully paid, and it has full power, authority and legal right to own its assets and carry on its business as set out in its respective business licenses, except where the failure to have such power and authority would not be material. Upon Completion, Sogou Information will acquire unencumbered title over the entire equity interest in the Company, free and clear of all Encumbrances.
2. The Company has not stopped or suspended paying its debts as they fall due, is not in and is not about to enter into receivership, liquidation or any voluntary arrangement or compromise or other arrangement with its creditors in the context of impending receivership or liquidation and, to the Warrantor(s)' Knowledge, no petition has been presented for the winding up of the Company and there are no grounds on which such a petition could be based.
3. Schedule 1 sets out a true, complete and correct description of the share capital and ownership of the Company as of the date of this Contract and immediately before Completion. The ownership in the Company is at the date of this Contract and will be immediately before and after Completion free and clear from all Encumbrances. The Company does not have any direct or indirect equity interest in any other entity as of the date of this Contract and immediately before and after Completion.
4. Except for the Newco Assets, the Company has never owned and does not own any direct or indirect interest in any Person and does not own, and has never owned, any other assets (including real property).
5. From the date of its incorporation, the Company has been, and has remained, a holding company with the sole purpose and function to hold the Newco Assets. The Company has never conducted any trade, operations or business activity other than holding the Newco Assets. The details of the Company set in Schedule 1 are true and accurate.
6. The Company does not own any real property and is not a party to any lease, whether as lessor or lessee or otherwise.
7. The Company does not currently have, and has never employed, any employees.
8. The Company does not have any indebtedness or liabilities of any nature whatsoever (other than payables incurred in the ordinary course of business), actual or contingent, and whether or not of a nature required to be disclosed in any financial statements. The Company has not guaranteed any indebtedness of any other Person.

9. Save for the Business Collaboration Agreements and the Asset Contribution and Licensing Agreement, the Company is not party to, or bound by, any contract, agreement, undertaking or commitment.
10. There is no unsatisfied judgment, court order or tribunal or arbitral award outstanding or any litigation against the Company or any assets owned or to be owned by the Company under the Assets Contribution and Licensing Agreement.
11. There are no outstanding options, warrants, rights (including conversion or preemption rights) or agreements for the subscription or purchase from the Company of any equity interest in the registered capital of the Company or any securities convertible into or ultimately exchangeable or exercisable for any equity interest in the registered capital of the Company, and (b) no equity interest in the equity capital or registered capital of the Company, or other shares issuable by the Company, are subject to any preemptive rights, rights of first refusal or other rights to subscribe or purchase such shares (whether in favor of the Company, its Affiliate or any other Person), pursuant to any agreement or commitment of the Company, its Affiliate or any other Person. There are no agreements outstanding which grant the right to any person to require the creation of any Encumbrance over any part of the equity interest of the Company.
12. The execution, delivery and performance of this Contract, the Asset Contribution and Licensing Agreement and the Business Collaboration Agreements by the Seller will not:
 - (a) violate any provision of the organizational documents of the Seller;
 - (b) except as contemplated by this Contract, require the Seller or the Company to obtain any consent, approval or action of, or make any filing with or give any notice to, any Governmental Authority or any other third party pursuant to any agreement to which the Seller or the Company is a party or by which the Seller or the Company is bound, except for any consent, approval, action, filing, or notice the failure to so obtain would not (i) prevent or delay the ability of the Seller to consummate the Transaction and (ii) have any Material Adverse Effect on the Company or the Newco Assets;
 - (c) conflict with or result in any material breach or violation of any of the terms and conditions of, or constitute (or with notice or lapse of time or both constitute) a default under, any agreement to which the Seller or the Company is a party or by which the Seller or the Company is bound (except for any breach or violation which (i) would not prevent or delay the ability of the Seller to consummate the Transaction and (ii) would not have any Material Adverse Effect on the Company or the Newco Assets); or

- (d) violate any law or any rule or regulation of any administrative agency or governmental body or any order, writ, injunction or decree of any court, administrative agency or governmental body affecting the Seller or the Company, except for any law, rule, regulation, order, writ, injunction or decree, approval, action, filing, or notice the failure to so obtain (i) would not prevent or delay the ability of the Seller to consummate the Transaction and (ii) would not have any Material Adverse Effect on the Company or the Newco Assets.
- 13. No Proceedings are pending or, to the Warrantor(s)' Knowledge, threatened against the Seller on the date of this Contract that may challenge, prevent, delay or otherwise interfere with, the consummation of the transactions contemplated hereunder.
- 14. The Company has complied with all relevant corporate or other procedures which are required under the laws of the relevant jurisdiction for the purposes of maintaining a corporate or other entity in such relevant jurisdiction, including without limitation, the submission of all necessary filings and notices to any Government Authorities, except where the failure to comply would not be material.
- 15. All available registers of members and the minute books of directors' and members' meetings of the Company up to and including the date hereof are up to date, and contain true and accurate records in all material respects of all matters required to be dealt with therein and under the laws of the relevant jurisdiction.

Equity Securities and Structure

- 16. Upon Completion there will not be any authorized or outstanding Equity Securities of the Company except those shares as set out in Schedule 1.
- 17. All presently outstanding Equity Securities of the Company have been duly and validly issued in compliance with all applicable laws. All Equity Securities of the Company are free and clear of all Encumbrances. There are no (i) resolutions pending to increase the share capital of the Company or cause the liquidation, winding up, or dissolution of the Company or (ii) dividends which have accrued or been declared but are unpaid by the Company.
- 18. No Contracts relating to the Company's Equity Securities provide for acceleration of vesting or lapse of a repurchase right or other changes in the vesting provisions or other terms of such agreement or understanding upon the occurrence of any event or combination of events. The Company has never adjusted or amended the exercise price of any share options previously awarded, whether through amendment, cancellation, replacement, grant, repricing or any other means.

Pro Forma Financial Statements

- 19. The Pro Forma Financial Information was prepared in accordance with the books of account and other financial records of the Company and its Affiliates, and in the opinion of the Company, present fairly in all material respects the state of affairs of the transferred business and its assets and liabilities as at the Pro Forma Accounts Date.

Assets and Properties

20. The Company or, as applicable, the Seller or such other Person that will transfer any Newco Assets to the Company pursuant to the Asset Contribution and Licensing Agreement has good and marketable title, free and clear of all Encumbrances, to all of the Newco Assets and all of the Newco Assets that are reflected as owned by the Company on the Accounts of the Company. None of the Newco Assets are affected by, or are the subject of, any disputes, except for any disputes which would not, individually or in the aggregate, reasonably be likely to have a Material Adverse Effect.

Contracts and Transactions

21. Each Material Contract of the Company is valid and binding on the Company or, as applicable, any Person that will transfer such Material Contract, to the Company pursuant to the Asset Contribution and Licensing Agreement and, to the Warrantor(s)' Knowledge, on the other party or parties thereto, and has been duly authorized, executed and delivered by the Company or the Person that will transfer any Newco Assets to the Company pursuant to the Asset Contribution and Licensing Agreement, and is enforceable against such applicable Person, and by each other party thereto and constitutes the valid and binding obligation of each party thereto, enforceable against each party thereto in accordance with its terms, except, in each such case, where such enforceability may be limited by applicable bankruptcy, insolvency reorganization, moratorium or similar laws affecting creditors' rights generally. As of the date of this Contract, with respect to the Material Contracts, none of the Company and the Persons that will transfer any such Contracts to the Company pursuant to the Asset Contribution and Licensing Agreement has received notice of any uncured or unwaived material default by the Company or such Person or, to the Warrantor(s)' Knowledge, by any other party or parties thereto.
22. The Company is not in the course of negotiating any Contract, and no other Person is in the course of negotiating any Contract that will be transferred to the Company pursuant to the Asset Contribution and Licensing Agreement. the Company is not a party to any contract made orally that would be a Material Contract or that is otherwise material to the Company, and no other Person is a party to any contract that will be transferred to the Company pursuant to the Asset Contribution and Licensing Agreement that was made orally that would be a Contract or that will otherwise be material to the Company.
23. None of the Material Contracts to which the Company is a party or by which it is bound, or that will be transferred to the Company pursuant to the Asset Contribution and Licensing Agreement or by which the Company will be bound contains any provisions whereby the execution and/or performance of this Contract and/or a change in the ownership, control or management of the Company will cause a termination or a default under such Contract.

24. Except as contemplated under this Contract, the Business Collaboration Agreements and the Asset Contribution and Licensing Agreement, there are no Contracts, understandings, transactions or proposed transactions between the Company, on the one hand, and any Related Party of the Company, on the other hand. No Related Party of the Company is indebted to the Company, nor is the Company indebted (or committed to make loans or extend or guarantee credit) to any such Related Party.
25. The Company has not retained and, to the Warrantor(s)' Knowledge, no other Person has retained on behalf of the Company, any investment banker, broker, or finder and there are no fees or charges due or payable to third parties in connection with the Transaction.
26. To the Warrantor(s)' Knowledge, the Company has carried on its business in compliance with all applicable laws and regulations in the relevant jurisdictions in all material respects. To the Warrantor(s)' Knowledge, there are no pending or on-going inquiries or investigations by any Governmental Authority in respect of the Company or the Newco Assets which may have material effect on the Company or the Newco Assets, and no such inquiry or investigations have been threatened.
27. There are no Contracts which restrict the ability of the Company or the owner of any Newco Assets to conduct any type of business anywhere in the world.

Licenses and Compliance with laws

28. The Company has obtained all licenses, approvals, permits, consents and registrations necessary for the carrying on of its business as currently conducted or as contemplated to be conducted following the Transaction (including the applicable Governmental Authority covering the franchise areas in which the Company operates or will operate Internet search engine services) except where the failure to obtain such licenses, approvals, permits, consents or registrations would not have a Material Adverse Effect on the Company. True and accurate copies of all material licenses of the Company have been made available for inspection and all such material licenses are in full force and effect.
29. No approval from any Governmental Authority is required on the part of the Company or any Person that will transfer any Newco Assets to the Company pursuant to the Asset Contribution and Licensing Agreement on or prior to Completion with its valid execution, delivery or performance of this Contract, the Asset Contribution and Licensing Agreement and the Business Collaboration Agreements (only to the extent the Company or such other Person is a party to such document).

30. The Company has obtained any and all Government Approvals required to be obtained on or prior to the Completion or required to be obtained in order for the Company to conduct its business as contemplated to be conducted following the consummation of the transactions contemplated by this Contract and has fulfilled any and all filings and registration requirements with applicable Governmental Authorities necessary in respect of the Company and its operations. All such filings and registrations with applicable Governmental Authorities required in respect of the Company, including but not limited to the registrations with the following Governmental Authorities of the PRC: the Ministry of Commerce (or any predecessors), the State Administration of Industry and Commerce, the State Administration of Foreign Exchange, the Ministry of Industry and Information Technology, the Ministry of Culture, the General Administration for Press and Publication, the State Administration for Radio, Film and Television, tax bureau, customs authorities and the local counterparts of each of such Governmental Authorities, as applicable, have been duly completed in accordance with applicable laws. The Company has not received any letter or notice from any applicable Governmental Authorities notifying it of the revocation of any Government Approval issued to it or the need for compliance or remedial actions in respect of the activities carried out directly or indirectly by the Company. The Company has been conducting its business activities within the permitted scope of business or is otherwise operating its businesses in material compliance with all relevant laws and Governmental Orders. The Company has no reason to believe that any authorization of any Governmental Authority, license or permit requisite for the conduct of any part of its business which is subject to periodic renewal will not be granted or renewed by the relevant Governmental Authorities.
31. The Company has obtained all material certificates, approvals, permits, licenses, registration receipts and any similar authority necessary under PRC laws to conduct foreign exchange transactions (collectively, the “Foreign Exchange Authorization”) as now being conducted by it and as contemplated to be conducted by it following the consummation of the transactions contemplated by this Contract, and believes it can obtain, without undue burden or expense, any such Foreign Exchange Authorization for the conduct of other foreign exchange transactions as planned to be conducted. All existing Foreign Exchange Authorizations held by the Company are valid, and the Company is not in default under any such Foreign Exchange Authorization.
32. The Company has been and is in compliance with all Governmental Orders (including without limitation all laws of the PRC with respect to mergers, acquisitions, foreign investment and foreign exchange transactions) in all material respects that are applicable to them or to the conduct or operation of their business or the ownership or use of any of their assets or properties.

Intellectual Property Rights

33. The Company owns or has the right to use, or will own or have the right to use (“Intellectual Property Rights”), all patents, domain names, copyrights, trademarks, designs, business names or other registrable or unregistrable intellectual property rights used in connection with its business or to be acquired under the Asset Contribution and Licensing Agreement (the “Intellectual Property”). The Company has all Intellectual Property Rights required for its business as currently conducted and as contemplated to be conducted.

34. None of the Intellectual Property of the Company has been wrongfully or unlawfully acquired by it or any Person that will transfer any Newco Assets to the Company pursuant to the Asset Contribution and Licensing Agreement.
35. True and accurate copies of all licenses granted to or by the Company and any Person that will transfer any Newco Assets to the Company pursuant to the Asset Contribution and Licensing Agreement in respect of any Intellectual Property Rights (the "IP Licenses") have been provided by the Warrantor(s) to the other Parties. Except as provided in the IP Licenses, The Company is not obligated to pay any royalties or other payments to any Person in respect of Intellectual Property used by the Company. The Company is not in breach of any IP License or of any agreement under which any confidential business information was or is to be made available to it, nor will the consummation of the transactions contemplated hereby result in any such breach.
36. All Intellectual Property Rights owned by the Company are vested in or validly granted to the Company and except as Disclosed in relation to paragraph 35 above are not subject to any limit as to time or any other limitation, right of termination (including on any change in the underlying ownership or control of the Company) or restriction and all renewal fees and steps required for their maintenance or protection have been paid and taken.
37. Save for this Contract, the Business Collaboration Agreements and the Asset Contribution and Licensing Agreement, the Company is not a party to any confidentiality or other agreement or subject to any duty which restricts the free use or disclosure, or requires disclosure, of business information owned by or required for its business.
38. Save for the Business Collaboration Agreements and the Asset Contribution and Licensing Agreement, neither the Company nor any Person that will transfer any Newco Assets to the Company pursuant to the Asset Contribution and Licensing Agreement has granted, nor is the Company obliged to grant, any license, sub-license or assignment in respect of any Intellectual Property owned or otherwise required for the Company's business, nor have they disclosed or are they obliged to disclose any Know-how required for the Company's business to any Person, other than the Company's employees for the purpose of carrying on the Company's business. There are no restrictions on the right of the Company to license or sub-license any Intellectual Property owned by it.
39. (a) To the Warrantor(s)' Knowledge, there has been no actual or alleged material infringement of any Intellectual Property Rights of or by the Company or any Person that will transfer any Newco Assets to the Company pursuant to the Asset Contribution and Licensing Agreement; and (b) the Company's Intellectual Property, and the validity or subsistence of the Company's right, title and interest therein, is not the subject of any current, pending or threatened challenge, claim or proceedings, including for opposition, cancellation, revocation or rectification, and has not during the period of one year prior to Completion been the subject of any material challenge, claim or proceeding, and there are no facts or matters which might give rise to any such challenge, claim or proceedings.

40. The Company and any Person that will transfer any Newco Assets to the Company pursuant to the Asset Contribution and Licensing Agreement have taken all reasonable steps open to them to preserve the Company's Intellectual Property. All renewal fees regarding the Company's Intellectual Property due on or before Completion have been paid in full, except where the failure to pay such fees is not material.
41. To the Warrantor(s)' Knowledge, the carrying on of the Company's business or businesses as presently constituted or as presently contemplated to be constituted does not and will not, save as set forth in the Disclosure Schedule, require any licenses or consents from, or the making of royalty or similar payments to, any third party in relation to such third parties' Intellectual Property. To the Warrantor(s)' Knowledge, the Company does not use or need to use any processes, and is not engaged in any activities which infringe any Intellectual Property, belonging to any third party. To the Warrantor(s)' Knowledge, the Company has not since the date of its incorporation used any Intellectual Property in a manner which has materially infringed or infringes the Intellectual Property rights of a third party.
42. The Company does not have any applications to register any Intellectual Property which are not being pursued with all reasonable due diligence and speed.
43. All employees of the Company, the Seller and such other Person that will transfer any employees to the Company pursuant to the Asset Contribution and Licensing Agreement who have or who have had access to the Intellectual Property have entered into a standard confidentiality and non-competition agreement, and, to the Warrantor(s)' Knowledge, none of these employees are in breach of such agreements.

Litigation

44. The Company and the Newco Assets are not involved whether as plaintiff or defendant or otherwise in any civil, criminal or arbitration proceedings (apart from debt collecting in the ordinary course of business) or in any Proceedings before any tribunal and no such Proceedings are threatened in writing or pending, except for matters that are not material to the Company or the Newco Assets.
45. There is no unsatisfied judgment, court order or tribunal or arbitral award outstanding against the Company or the Newco Assets and no distress, execution or process has been levied on any part of their business or assets.

Indebtedness

46. Details of the Company's indebtedness (other than payables incurred in the ordinary course of business) as at the end of the calendar month preceding the date of this Contract are set out in the Disclosure Schedule.

Taxation

47. The Company has on a timely basis made all material returns for taxation purposes which it is obliged to make, and all such returns and other information supplied to the relevant tax authority in the relevant jurisdiction are true, accurate and complete in all material respects and have been prepared in accordance with all applicable laws.
48. There are no outstanding claims or assessments (including penalty or interest claims) in respect of taxation against the Company or any of the Newco Assets, except for claims or assessments which, individually or in the aggregate, would not be material.
49. The Company is not subject to any dispute with the relevant tax authority of any jurisdiction, except for disputes which, individually or in the aggregate, would not be material.
50. The Company and each of its Affiliates that will transfer Newco Assets to the Company pursuant to the Asset Contribution and Licensing Agreement has paid all taxes for which it is liable from the date of its incorporation onwards on the relevant due dates, except for taxes as to which failure to pay would not, individually or in the aggregate, reasonably be likely to have a material effect or as would not have any Material Adverse Effect on the Company or the Newco Assets or the transfer thereof pursuant to this Contract.

I, Charles Zhang, certify that:

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

Dated: November 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: November 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 September 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 September 30, 2013 and results of operations of the Company for the three months ended September 30, 2013.

/s/ Charles Zhang

Charles Zhang, Chief Executive Officer and
Chairman of the Board of Directors
November 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 September 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 September 30, 2013 and results of operations of the Company for the three months ended September 30, 2013.

/s/ Carol Yu

Carol Yu, Co-President and Chief Financial
Officer

November 8, 2013